Inflation incentive for increasing stock

by John Draper

FARMERS are increasing stock numbers in a desperate race to stay in front of inflation.

Despite better prices for lamb and beef this season, farm incomes are only just likely to outpace inflation, although farmers will have more dollars in their back pockets.

In real terms, the Agricultural Review Committee expects sheep and beef farm income to climb for the third year in succession. It will still fall short of 1975-76 levels, the base for current comparisons and be only three-quarters of that achieved in the boom 1976-77 season.

Inflation appears to be an even stronger incentive to increasing production than the Government's livestock incentive scheme.

A review of the first 18 months of the scheme by two agricultural economists at the Ruakura Research Centre found that farmers were not taking up the financial incentive as rapidly as might have been expected and development was profitable without Government support.

And the numbers signing up for the scheme are rapidly declining.

In the year to March 1978, 3471 farmers were registered by the Rural Bank. A year later the number dropped to 2680 and in the 10 months to February 5, 1980, only 1761 were accepted.

Two wetter-than-usual summers in succession have kept the grass growing well into the new year, encouraging flock building as well as ensuring a better crop of lambs later in the year.

And with plenty of feed lambs have been held back from the works to put on more lean weight taking advantage of a re-adjusted schedule which has started moving upwards as freezing companies start getting desperate for stock. The long slow start is likely to be bad for freezing company profits though good for farmers and exporters.

Without the increases in volume, farmers would have been struggling to keep pace with inflation.

The Agricultural Review Committee is forecasting that farm revenue will grow 1 per cent faster than inflation for the current season (17 per cent to 16 per cent), but off-farm costs will rise much faster.

In the year to January 1980, the cost of getting a lamb from the farm gate to Smithfield market shot up by 22 per cent, bringing the cumulative increase over four years to 109 per cent.

The cost of getting boneless cow beef to New York went up by 36 per cent last year, an 89 per cent increase since January 1976.

Farmers share of the final price is dropping. From a carcase of lamb they can now expect only 33.61 per cent of the Smithfield wholesale price, down from 40.88 in 1976-77.

Transport charges to the freezing works have climbed back to the levels effective before long-distance trucking took over from the railways – 1.4 per cent of Smithfield prices.

Killing and processing charges are accounting for most of the farmers' falling share although overseas shipping and handling is increasing at close to the same rate.

In March 1975 a 14.2 kilo lamb cost $2.58 to be killed and processed in the average North Island works, a 3[illegible] kilogram ewe $3.16 and a 160 kilogram cow $43.20. In January this year the comparative charges were $6.35, $8.82 and $92.10.

But in dollars, pastoral farmers are much better off this season and the prospects for the next year or two are equally good with little likelihood of the United States invoking the counter cyclical regulations against beef while there is a world shortage. Herd building is beginning again in the United States but the high demand for imported beef is expected to last into the mid-1980's and possibly beyond.

Iran and more quietly Saudi Arabia, are becoming strong customers for lamb, and they are helping to strengthen prices for lamb in Britain where they have remained virtually unchanged for the last two years up to a month ago.

Saudi Arabia has already bought 10,000 tonnes this season, a massive leap from the 200 tonnes maximum purchased in any previous season.

As a result, much less lamb will be going to Britain this year despite suggestions from the European Common Market's Agriculture Commission that this year's imports from New Zealand be used as the base for "voluntary quotas" when a sheepmeat regime is introduced.

Only 170,000 tonnes of lamb will go to Britain this season, a 35,000 tonne drop from last year when shipments were more than 200,000 tonnes.

Higher prices in Iran, Saudi Arabia and other developing markets plus the rising value of sterling will compensate for the lower tonnage.

Britain, from taking 60 per cent of our lamb a year or two ago, is unlikely to get more than 50 per cent for the next few years, if ever again.

The Dairy Board claims the outlook for dairy farmers is much brighter than the Agricultural Review Committee suggests. The committee predicts that dairy farmers real incomes will fall this year as inflation outpaces rises in gross income.

Contrary to the fall in milk fat production this year, the board is expecting a record throughput as the damp summer allows cows to produce milk longer.

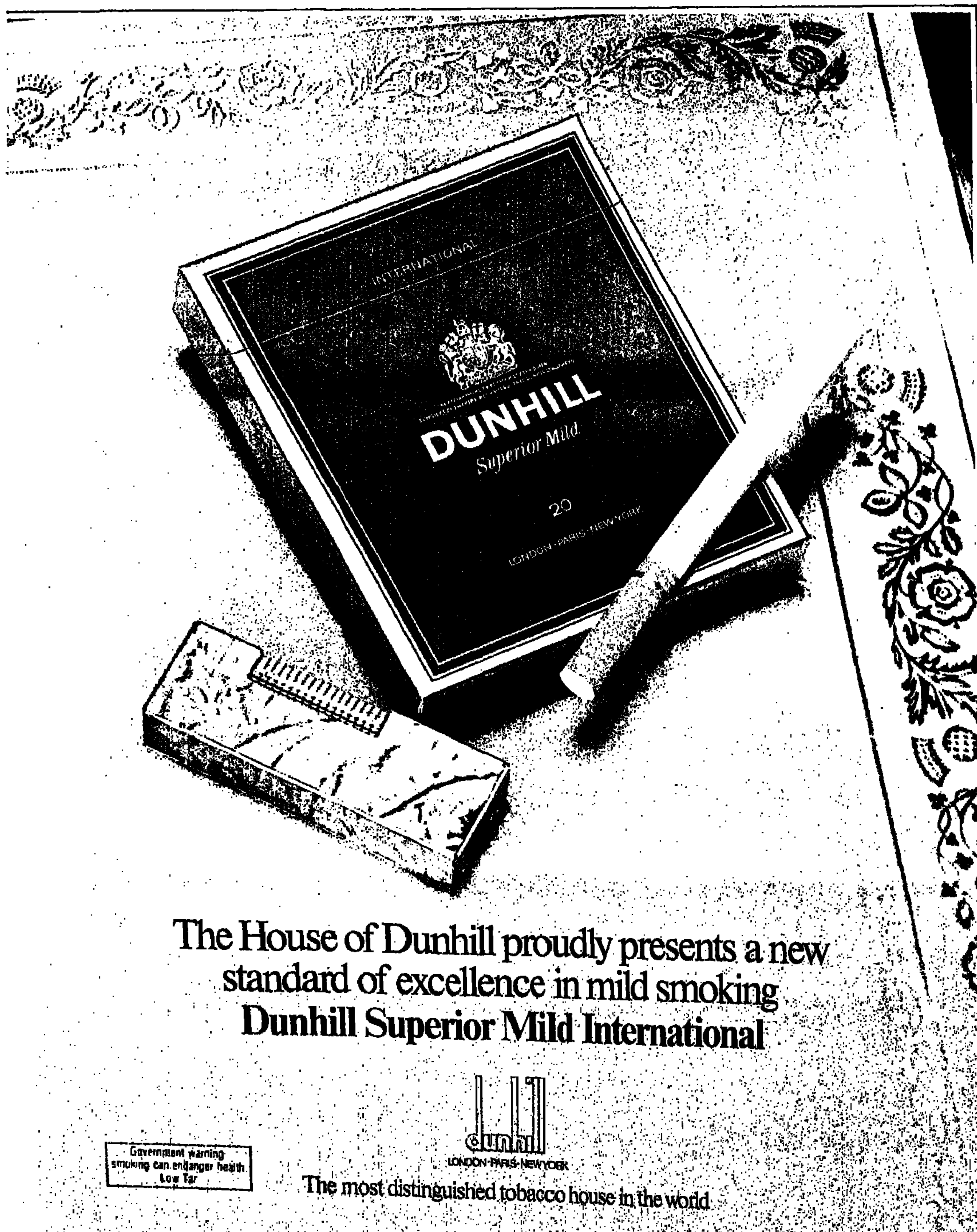
Russia faces grain shortfall

THE Soviet Union faces a probable shortfall of six million tonnes in its grain import targets for this year, according to the US Department of Agriculture.

The Agriculture Department expects Moscow to import about 28 million tonnes, about three million more than the department predicted a month ago, but still six million short of Russia's goal of [illegible] million.

That would give the Soviet Union a total of 206 million tonnes, including a greatly reduced domestic harvest compared to total needs estimated at 225 million tonnes. Thus, the department [illegible] Moscow must go into its reserves for 19 million tonnes.

The shortfall could begin to be felt as early as next month and will become most [illegible] before the July harvest.



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NEW ZEALAND'S NATIONAL WEEKLY OF BUSINESS, POLITICS AND ECONOMICS

NATIONAL BUSINESS REVIEW

Incorporating Admark

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Disputed injunction still restricts *NBR* as judge reserves review decision

BASIC rights of freedom of speech and freedom of the press were defended by *National Business Review* in the Supreme Court at Auckland last week.

Gagged by an *ex-parte* interim injunction, *NBR* asked Mr Justice Barker to review the case and rescind his injunction order.

At the conclusion of argument, His Honour reserved his decision. It had not been released as *NBR* went to press.

Earlier this month, the judge had granted the injunction against journalist Warren Berryman and the publishers of *NBR*.

The injunction had been sought by Brian McSweeney and Terance Arthur Lambert, publishers of a number of trade journals in Auckland, including *Port News*.

An earlier article by Berryman reported certain aspects of *Port News* trading which the injunction prevented, and which at press time still prevents *NBR* from repeating or adding to.

McSweeney and Lambert on March 5, 1980 filed a statement of claim for $40,000, claiming they were defamed by some of the statements in the article.

They also sought and obtained the same morning an interim injunction preventing publication of further material about advertising in *Port News* or the plaintiffs' other publications, *Riding Tall* and *Ambulance News*.

This injunction was granted without any notice to *NBR* of the application and without *NBR* being present or aware of the application.

Before hearing argument on why the interim injunction should be rescinded, Mr Justice Barker said it had been granted only as a matter of urgency an hour before the time that he had been told *NBR* went to press.

In the circumstances, he said, he had little alternative but to grant the order.

Mr R P Smellie, QC, counsel for *NBR* said the alleged defamation would be defended by pleas of justification and qualified privilege, supported by evidence.

He said

- There did not appear to be any reported case in New Zealand where an interim interlocutory injunction had been granted in a libel case.
- There was no jurisdiction for the court to grant the interim injunction;
- The judge was not referred to the correct authorities when the *ex parte* injunction argument was heard; and
- The basis of the order was too wide and not justified by authority.

Mr Smellie said that if an injunction order could be obtained in the circumstances of the present case, substantial costs ought to be awarded if it was subsequently rescinded.

"If that be otherwise, there is a ready-made cheap method of stopping publication of things which in many instances ought to be published," he argued.

Arguing that the injunction was too wide, Mr Smellie referred to an article written by Berryman and published in *Port News*.

He said Berryman's article was written about the Prime Minister for *NBR*. But *Port News* reprinted it without any request or authority.

Mr Smellie said the terms of the injunction order were so wide that it would prevent Berryman suggesting in print that *Port News* had stolen his copyright.

Mr Smellie said that a series of written questions prepared by Berryman had been put to the plaintiffs following publication of the earlier article about *Port News*.

He said that such a letter was not sufficient to show that there was an intention to publish anything further which might be defamatory of the plaintiffs.

Mr Justice Barker said he had to confess that at the time he granted the interim injunction, he did not know there was a difference between injunctions in defamation cases and other types of injunction.

Mr Graeme Jenkins, for the plaintiffs, said that at the time he applied for the interim injunction he was also unaware of the difference.

Mr Jenkins suggested the plaintiffs had been grossly defamed by the *NBR* article.

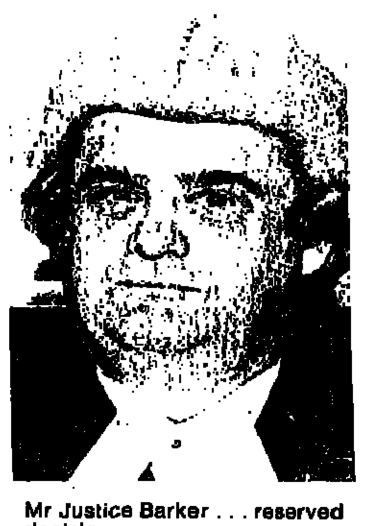
He argued it was appropriate that an injunction be granted to prevent further defamatory material being published.

Mr Jenkins argued that the questions from Berryman could be seen as a threat to publish further information. Further there was jurisdiction for the court to grant an interim injunction but he accepted that the terms of the injunction granted were too wide.

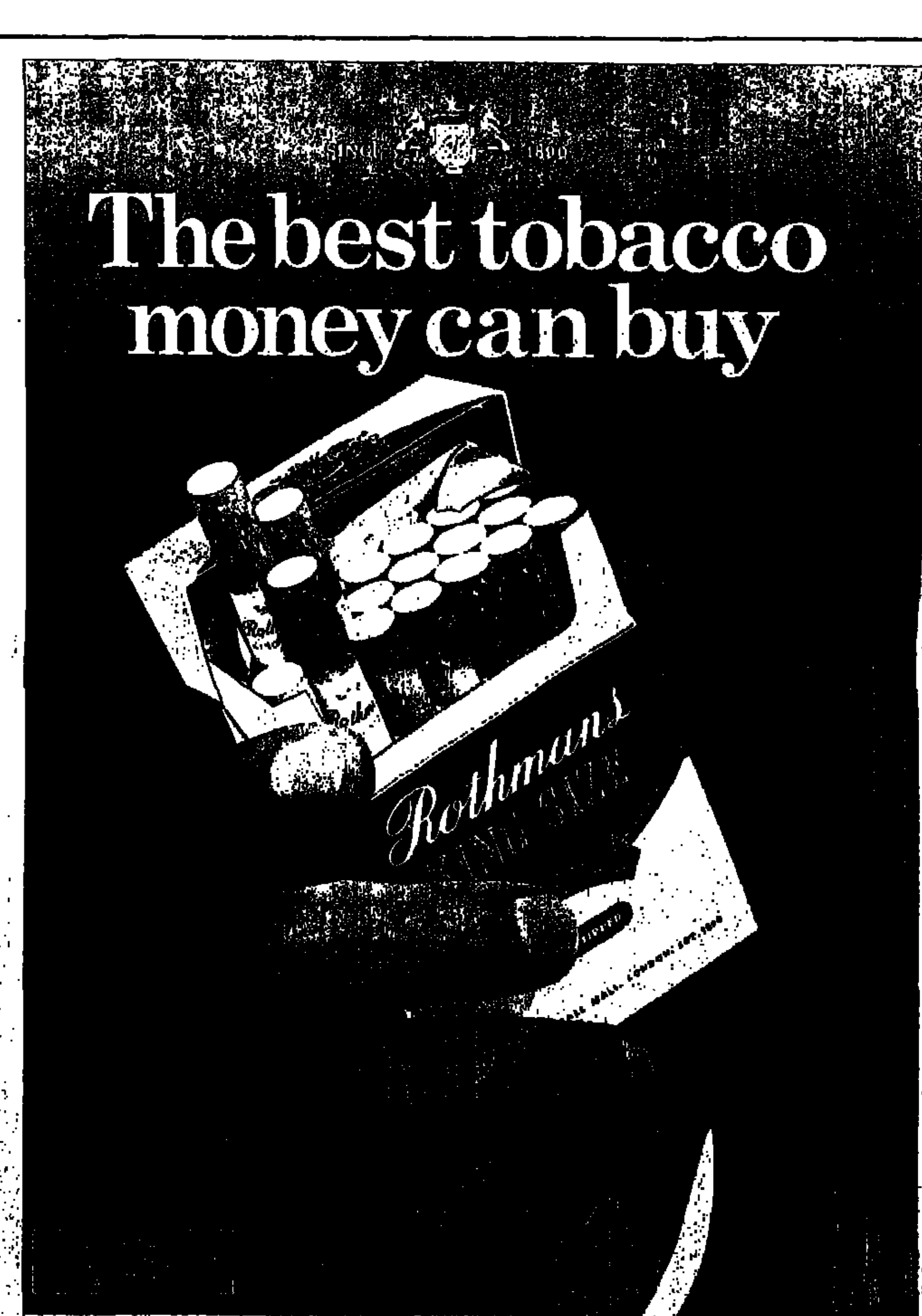
Mr Jenkins said that if the court came to the view that the injunction should not have been granted, it did not give rise to an application for substantial costs against the plaintiffs.

He suggested that the reference by Mr Smellie to the plaintiffs placing a financial restraint on the freedom of speech and freedom of the press was going too far.

He said it was "overdramatising" to suggest that the *National Business Review's* public function had been inhibited.



Mr Justice Barker . . . reserved decision.



Industrial peace hinges on same Kinleith issue

THE Kinleith strike may finally be over if the Government agrees to hand over the $4.81 an hour core rate. Delegates from the Kinleith, Tasman and Caxton mills met with FOL president Jim Knox to consider a Government package put together to resolve the dispute. The Government proposed lifting the regulations cutting back the Kinleith core rate in return for the union's acceptance of the package.

ROMAN Catholic bishops asked the Government for a handout of $15 million to alleviate financial problems facing church schools.

ANSETT, the Australian airline owned by Rupert Murdoch, is buying 21 Boeing aircraft including five new 200-seat 767s. The order, worth more than $400 million, is expected to heighten the recent Ansett-TAA rivalry.

THE DFC's Forest Industry Study report outlining development prospects and opportunities for the forestry sector in the 1980s and 1990s was released. Its objectives were to highlight development opportunities that could be possible in the 1980s; identify potential wood production, processing, manufacturing and export market options for the next 20 years; and to indicate what is necessary to achieve a recommended future pattern of development.

IRAQ wants to buy more lamb. Exporter W R Fletcher has estimated it can supply Iraq with $130 million worth of lamb over the next five years, which would make it New Zealand's fourth largest lamb market.

MEMBERS of the Farm Workers' Association decided that sagging membership and financial strife have made it impossible for the association to continue.

In a final bid to boost membership, they decided to postpone their winding up till late May.

BUTTER prices will go up by 10c next month to 75c for 500 grams.

OFFICIAL analysis of the Johnson report on the education system will not be revealed in full, and the analysis of 1500 public submissions will not be made public.

PRESIDENT Carter's anti-inflationary package unleashed a $12,600 million cut in Government spending next year, an oil import fee of $4.62 a barrel and restraints on certain types of consumer credit and on money market mutual funds.

THE American prime interest rate hit a record 19 per cent by eight major banks – the first result of President Carter's anti-inflation package. The US dollar was boosted at $2.19 to the pound. At the same time share prices fell on international stock markets.

PRESIDENT Carter won the Democratic primary in a decisive victory defeating Senator Edward Kennedy's challenge. Ronald Regan came out of the Illinois primary all set to gain the Republican presidential nomination.

RECORD exports helped improve British trade figures last month. The trade deficit went down £100 million to £226 million.

A MAJORITY of British members of Parliament – 315 to 147 – supported a boycott of the Moscow Olympic Games. The New Zealand Olympic and Commonwealth Association still intends to send a team to Moscow and Australian officials of the athletic, cycling and swimming teams decided to participate in the Games.

ROB Campbell, industrial officer for the Shop Employees Union, proposed to set up a combined union comprising drivers, shop assistants and storemen. Others who may be involved with the union (tentatively named, the Distribution Workers' Union): the secretary of the Northern Drivers' Union, Bill Andersen, and the secretary of the Storemen and Packers' Union, Mike Jackson.

PRIME Minister Rob Muldoon named 32 alleged Socialist Unity Party members holding "influential" trade union positions.

ENERGY Under Secretary Barry Brill left for Mobil headquarters in the United States to sign the agreement for the Taranaki synthol petrol plant.

THE CABINET Economic Committee has still not reached a decision on which free-standing methanol plant the country wants.

The business week

Alliance Textiles Ltd reported an unaudited tax-paid profit of $349,000 for the six months to January 31 ($516,000 for the same period last year). An interim dividend of 3c is payable on May 30.

Amalgamated Wireless (Australia) Limited reported an unaudited tax-paid profit of $A5,193,000 for the six months to December 31 ($A4,519,000 same period last year). An interim dividend of 5c was declared.

Bing Harris and Co Ltd reported an unaudited tax-paid profit of $699,000 for the year ended December 19 ($246,000 last year).

BP has joined **Amoco** in a joint venture to explore for minerals at Karamea with the acquisition of a 50 per cent interest in three licences.

Brambles Industries Ltd appointed Oliver Richter as chief executive officer.

British Paints New Zealand Limited is to undergo major changes under the new name of B J N Holdings NZ Ltd.

The Chrysler Corporation might go bankrupt if its new small car project does not succeed, and its 1980 losses could run as high as $663 million ($525 million was the previously predicted figure).

Comalco Limited is selling its two aluminium can production businesses in Australia to **Containers Limited** and **Gadsden-Pacific Can.**

DIC Limited lifted unaudited tax-paid profit by 58 per cent to $574,000 for the six months ended January 31 compared with a year ago. An unchanged interim dividend of 7c is payable May 14.

An explosives plant is to be built in the Kaimai Ranges by **Du Pont New Zealand Limited**, costing between $1 million and $2 million.

Emperor Mines Limited reported an unaudited tax-paid profit of $A986,000 for the six months to January 31 ($A115,000 for same period last year).

Farrier-Waimak Limited reported an unaudited loss of $140,919 for the half year.

Fisher and Paykel Dealer Industries Ltd reported a tax-paid profit of $443,000 for the year to December ($177,000 last year). A final dividend of 11 per cent payable April 21.

Humes Ltd reported an unaudited tax-paid profit of $7,910,000 for the six months to 31 December ($5,917,000 for same period last year). Dividends of 3.75c on each A and B $1 cum pref and 50c ords are payable March 31.

Independent Newspapers Ltd appointed John Fair as Wellington Company Director.

Mair and Company Ltd reported an unaudited tax-paid profit of $324,569 for the half year to December 31. An unchanged interim dividend of 12.5 per cent is payable March 28.

New Zealand Farmer's Co-op Association of Canterbury Ltd reported an unaudited tax-paid profit of $370,000 for the half year to January ($360,000 same period last year). An interim dividend of 8 per cent is payable May 2.

Christchurch City Council paid the insolvent firm, Portside Enterprises Ltd $35,000 ending a six-year battle over the original concession at Queen Elizabeth II Park.

Prestige Holeproof (NZ) Limited reported an unaudited loss of $162,774 for the six months to December 31. An unchanged interim dividend of 3 cents is payable on May 12.

Propety Securities Ltd reported an unaudited tax-paid profit of $280,577 for the six months to January 31 ($514,171 for the same period last year). An interim dividend of 12 per cent is payable on April 3.

Radio Windy-Capital City Radio Ltd appointed Paul Ramsden as Station Manager.

Tolley Holdings Ltd reported a tax-paid loss of $211,000 for the year.

The week ahead

TUESDAY: TNL Group's annual general meeting. NZ Light Leather Ltd annual general meeting in Christchurch.

WEDNESDAY: The Federal Republic's Democratic Defence Minister, Dr A Hans Abel here on official visit.

Trade and Industry Minister, Lance Adams-Schneider addresses the Manufacturers Annual Convention in Christchurch. National Wool Crafts conference in Palmerston North.

THURSDAY: Trade and Industry Minister, Lance Adams-Schneider will preside at Auckland Easter Show (Auckland Manufacturers Association).

Cabinet turns down mystery private bid for GTB

by John Draper

AN unsuccessful bid from private enterprise for the Government Tourist Bureau is expected to shake up the domestic travel industry.

The bid, understood to have come from an Auckland firm of sharebrokers acting for another party, fell flat at the Cabinet table last week. (*NBR* March 17 1980).

Cabinet did resolve to give the bureau "the tools to do the job efficiently".

Bus, rail and domestic hotel/motel bookings are shunned by the travel industry, which prefers to sell more profitable outbound travel.

Apart from several large operators – Air New Zealand Mount Cook, Newmans – the Government Tourist Bureau sells the bulk of domestic travel. The system is labour intensive and at times chaotic.

With the Government keen to get a better return for taxpayers' investment, the bureau at least will get its own computerised accounting system.

Being so far behind with new technology may have its advantages. Computerised accounting and booking systems have become cheaper and more cost effective, giving the bureau a wider choice of options.

Tourism Minister Warren Cooper has ordered the speedy completion of the bureau's fifth review in 17 years, with proposals for a computer package to be on his desk within weeks.

It is understood that the bureau has been given no firm indication of how much it can spend. But any proposed outlay will have to demonstrate the savings that can be achieved.

Redundancies are understood not to be among the savings. Accounting and ticketing staff superceded by computers will be retrained to give them "more rewarding jobs".

One concept certain to be studied is a fully computerised domestic booking system for rail and long-distance bus services, accessible in much the same way as the Broadlands-Air New Zealand international airline booking service is being made available to independent travel agents.

The bureau may be tempted to wait for the next step in computerised ticketing, already in use overseas.

Booking domestic travel now suffers from two drawbacks – its complexity and low commissions.

Private-sector operators, such as Mount Cook and Newmans, are not eager to be locked into a centralised booking system open to political influence from future governments that might not be so private-enterprises orientated.

The bureau is already heavily criticised by internal travel operators for pushing its own "Tiki" coach tours in preference to those offered by commercial operators.

Why there was a takeover bid for the Government Tourist Bureau is puzzling the travel industry. It is not a profitable business and from a private-enterprise viewpoint needs a big staff reduction to give it any hope of working efficiently.

From sales of $2.8 million in the last financial year to March 1979, the bureau netted $24,698. A year earlier on sales of $2.5 million the bureau made $135,660.

Nor would the industry be ready to take over the promotion function of the bureau, which some sources admit is "excellent" when not tied into the function of selling individual tours.

A takeover by private enterprise, it is suggested, would only make sense if the Government was about to increase the commissions on domestic travel.

Air freight crashes before takeoff

by John Draper

EXPORTER'S hopes for an independent airfreight service out of Christchurch and Auckland have crashed before takeoff.

Despite a flurry of applications last year – resulting in two approvals – no new services got airborne.

A receiver has been appointed to British Cargo Airlines, Western Europe's biggest all-cargo airline, by the National Westmister Bank grounding plans by subsidiary IAS Cargo Airline (NZ) Ltd for a regular airfreight service between New Zealand and Papua New Guinea.

IAS applied last year, with the support of exporters and freight forwarders, for a permit to operate trans-Tasman, offering weekly services with a converted Britannia aircraft from Wellington to Sydney and Melbourne, Christchurch-Melbourne, Auckland-Melbourne and Auckland-Brisbane service every 10 days.

Transport Minister Colin McLachlan rejected the trans-Tasman proposal, but did give the airline a permit for fortnightly services to Port Moresby.

With the failure to win New Zealand approval, partly due to the Australian Government's reluctance to accept more operators over the Tasman, IAS's operations Down Under were concentrated on flying chilled meat from Western Australia to the Middle East.

A rescue operation is being mounted by IAS's Australian associate. But even if successful, it is unlikely to include services to and from New Zealand.

British Cargo airlines fell foul of rising fuel costs and severe price competition from passenger carriers, resulting in the under-utilisation of aircraft.

A decline in world trade did not help.

Christchurch based Airag Freighters International Ltd failed to get airborne after gaining Government approval for a limited permit to operate to the Middle East, principally Saudi Arabia, using chartered DC8 freighters.

Despite assurance of support, it is understood few of the promises of financial support materialised.

Air New Zealand has defered plans to convert one of its three remaining DC8's, used mainly for trans-Tasman services out of Wellington, to an all-freighter, ostensibly because of the DC10 crash in Antarctica.

The freighter will not be introduced until February 1981.

Exporters are standing by for a 25-33 per cent increase in airfreight rates in the next year as rates catch up with fuel-price increases.

The effect, coupled with what now seems an inevitable world recession, will almost certainly cut back the demand for airfreight.

New Zealand's problem is seasonal, specially at the beginning of May when the first shipments of kiwifruit are airfreighted to catch the best prices in the United States, Japan, West Germany and Britain.

Kiwifruit exporters are now trying to avoid expensive airfreight by shipping container-loads of temperature-controlled fruit to bulk markets. But other horticulturalists looking to export markets are worried that passenger-orientated airlines may not be able to serve their needs as production expands.

Air New Zealand's new cargo director, Mike Neville, says the national carrier will do its best to match demand with capacity, chartering where necessary to make up for the shortfalls of passenger services.

But any airfreight will have to be carried profitably by the airline.

DC8 freighters chartered from Flying Tiger, America's all-cargo airline, last year when the DC10's were grounded, carried full cargoes and had paid their way, he said.

Advertisement.

Mr D.F. McLeod

Mr G.J. Wattie

WATTIE INDUSTRIES LIMITED

Annual General Meeting of Shareholders

Held at Group Headquarters Hastings on 12 December 1979

FINANCIAL HIGHLIGHTS

Year Ended 31 July	1979	1978
	$000's	$000's
Net Sales and Commissions	322,581	280,117
Net After Tax Equity Earnings	15,429	13,033
Ordinary Dividend/Distributions Paid	5,663	4,282
Ordinary Dividend/Distribution Rate p.a.	17.5%	15%
Shareholders Funds	133,313	115,025
Total Assets Employed	227,505	201,365
Export Sales	19,035	16,335

EXTRACTS FROM THE ADDRESS BY MR D.F. MCLEOD, Chairman of Directors

On a 15.2% increase in sales, tax paid profit rose by 18.4%. The increase was achieved without the benefit of the special inventory related tax allowance of $1.455 million which applied in the previous year. The significance of this is that it reflects not only an improvement in the profit per dollar of sales but, more importantly, an increased return on total assets employed. This we regard as the significant measure of our progress.

CURRENT TRADING SINCE BALANCE DATE

The second half of last year displayed a growing strength in the sales of most of our products and this momentum has continued into the current year. For the three months to the end of October, our sales have been running 25% above those of comparable months last year and we assess our profitability as being substantially ahead also.

CURRENT EXPORTS

Our Group has always been identified with exports of canned and frozen foods produced by J. Wattie Canneries Limited and indeed this remains a major strengthening sector of our overseas trade, but in addition, excellent progress is being made from a smaller base by other Divisions of the Group. Over the last three months, the Cropper-NRM Division has made sales approaching one million dollars and a similar level of export sales has been achieved by General Foods Corporation. In total, for the three months, our exports reached $6.6 million, double those of the previous year for the same period and there is confidence throughout the Group that we can continue this development – perhaps not quite as fast for the full year, but nevertheless at a respectable pace.

Trans-Tasman Trade

Under the impetus of the Australia New Zealand Free Trade Agreement trade between the two countries has grown substantially over the last decade. There is a felling, however, that if this growth is to continue, fresh initiatives are required.

To this end, discussions are taking place between trade and manufacturing councils of the two countries, as well as at government level. It is unfortunate, however, that public conjecture from various quarters has prematurely assumed the likely outcome of these discussions as being full free trading areas, customs unions and even political union without giving full weight to the practicalities of such far reaching moves. It is to be hoped that the research currently being undertaken can proceed pragmatically and that indeed areas of co-ordination to the mutual advantage of both countries will be identified and encouraged.

DEVELOPMENT

A great deal has been achieved over the last year or so in consolidating and improving our manufacturing capabilities. The present high cost of capital resources makes it essential that every new investment we make should aim, not only to improve our capacity to take every advantage of market opportunities in New Zealand and overseas, but also to maximise the profit return from all existing and future acquired assets. This last factor is doubly important because of the impact of environmental and factory regulations involving many laws and administrative agencies with which we must comply on a non-productive basis.

The impact of rising costs continues to be severe with inevitable adjustments to selling prices. It is with satisfaction, however, that we can report to you that compensatory savings are being achieved through improved efficiencies.

It is to be hoped that the vexed question of dividend taxation will be tackled and resolved in the not too distant future in order that industry in New Zealand can proceed with more confidence to invest equity capital in worthwhile developments.

We share with all industry and people in New Zealand a future dependent upon strong economic growth. The growing polarisation of attitudes in many aspects of our society is a matter for concern. Without hesitation we acknowledge industry's repsonsibility to preserve and improve the quality of life in this country. However, the realistic stiuation is that this cannot be sustained in a society weakened by delays and indecision arising from lack of faith in the country's ability to develop valuable resources without incurring the dire effects that some would have us believe are inevitable. A more positive consensus needs to be engendered for the nation's benefit.

EXTRACTS FROM THE ADDRESS BY MR G.J. WATTIE, Managing Director

Capital investments have been made last year and planned for the current year at a steady, confident rate to improve, replace and enlarge our various facilities throughout New Zealand and in Fiji.

Land has been purchased in Auckland near our Tip Top Ice Cream factory. This will allow Refrigerated Frieght Lines to move to greatly improved facilities for their Head Office and garage.

Our investment in low temperature transport is also being supported by the building of a large modern storage and distribution freezer at the Auckland Ice cream factory. Low temperature storage is being enlarged at Gisborne and Hastings factories which will improve handling and costs also.

The Cereal Milling Division of Cropper-NRM Ltd is well advanced in the modernisation of the Gore Hot Breakfast Cereal Mill, a major refit for this old established plant.

Plans are being finalised for improvements to the Fort Street Auckland, flour mill and the building of a new feed mill in South Auckland is about to commence.

GOLD EXPLORATION

We should report that we have joined ICI in a joint venture for limited gold exploration in the Coromandel area. Drilling is proceeding on an old gold mine site that has been assessed by geologists as a likely area. We will await with interest the results of the test programme which is limited in its extent.

ENERGY

Naturally, we are continuing to develop energy savings wherever possible. Conversion to LPG for motor vehicles and fork trucks is progressing further. We believe that a natural gas pipeline should be brought to Hawkes Bay as soon as possible.

We have a positive interest in the potential for producing ethanol from crops such as fodder beet in the South Island. Our experience in the cropping and processing field will assist evaluating the prospects for ethanol production. This project is becoming more important due to the rapidly rising cost of petroleum products produced from fossil fuels.

ICE CREAM

I did not expect to see the day when ice cream would be taxed in New Zealand. It is difficult to understand why this product, with its high food value, should be singled out for this discouragement. It is based entirely on New Zealand's dairying industry, and it is used and enjoyed as a dessert and a food by children and adults alike. It was a real disappointment when it was subjected to a 20% sales tax in August.

EMPLOYEE SHARE SCHEME

Recently, we were able to make another – our second – employee share issue and have been gratified by the acceptance. We now have in excess of 1700 employee shareholders.

FUTURE

Increasing costs of energy will no doubt bring the necessary change to many areas of production and distribution. Unless we can improve our efficiency in these fields, cost increases are going to flow on into our pricing. Savings have been made in the past year in these cost areas, but the substantial increases we continue to face make equivalent savings extremely difficult.

In planning for the future, it is unnerving to have some attack the export incentive scheme and others speak of a free trade area with Australia. In trade there is nothing free and changes should not be introduced by Government without careful consideration of the consequences.

DFC textile merger try turns toward a takeover

THE Development Finance Corporation showed up last week as the architect of merger propositions put to Mosgiel Ltd and Alliance Textiles Ltd.

Until now, the DFC's financial transfusions for new export-oriented businesses and for existing manufacturers have proved most acceptable for the businesses turning to the quasi-official organisation and in 1979, 284 projects received cash injections totalling $82.6 million.

Now that the blood donor has turned company doctor on a scale unprecedented in previous years, there will undoubtedly be some clients who are more uneasy about the shot in the arm they are getting.

It should not have been too great a surprise. The DFC said in its 1979 annual report: "... in some cases DFC has assisted with corporate restructuring.

"The last year or so has seen DFC move on a number of occasions into the role of catalyst in organising financial packages ... or to rationalise existing operations where this has become necessary."

These operations were probably minor compared with the scenario played out in southern boardrooms this month, where the DFC attempted to force a shot-gun marriage between Mosgiel and Alliance in the troubled textile industry.

Alliance has been around since 1935 and Mosgiel since 1870. Mosgiel merged with the Roslyn Mills division of UEB Industries in late 1968 and six months later UEB took a 50 per cent stake in the company. It was to relinquish that in 1975, a couple of years after Mosgiel had bitten off more than it could sustain with the 1972 takeover of ailing Kaiapoi Textiles Ltd.

There have been warnings from inside and outside the industry for years about inefficiencies, and the declining local market and the need for textile rationalisation. But so long as both companies continued to top the million dollar mark in net profitability – as they did until last year – the problems seemed able to be avoided.

Alliance's net profit slumped from $1.3 million in 1978 to $592,862 in the July year 1979. Mosgiel was doing much better with a tumble to $953,249 from $1.2 million in 1978.

Alliance's chairman Reed Jackson warned at his company's annual meeting in November that 500 employees could be fired.

Most of them have been at the Timaru worsted suiting mill. Depressed conditions continued in the local market and development costs hit the United States venture Swanndri. Its dire warnings about the state of the industry were not muted by official attitudes.

In the past year, Alliance has been facing agonising decisions and worrying that Government policy could permit imports of textiles from low-cost nations, forcing the company to shut mills.

The company has strong hopes of producing high-quality yarn and fabric at prices comparable with the landed costs of similar standard British production. But there is no way it could compete with cheap cloth landing from the Third World.

There has been a steady flow of shareholders out of the industry as a result of such fears, although the rationalisation concept promoted by the Industries Development Commission and any plans to loosen imports of man-made fibre should help Alliance's new products, and divisions such as Rembrandt suits and Levana jersey fabrics.

Alliance has been pouring cash into new plant to shift emphasis away from the declining blanket and hand-knitting wool markets with the DFC bankrolling the moves.

No figures have been revealed but *NBR* notes Alliance's fixed loans totalled almost $7 million last year.

Simultaneously, the DFC was heavily involved in loans to Mosgiel which had wound up Kaiapoi and was considering angora production.

Until 1979, Mosgiel had straight-forward financing of up to $1.2 million from the DFC. That was switched into a DFC-Wells Fargo floating currency loan of $1.9 million. Total term liabilities were at $7 million, about the same as Alliance's. They included $2 million in Bank of New Zealand borrowings.

With big stakes in both companies, the DFC did some nervous nail-biting and finally decided to act as marriage-broker.

It seems that at first the Alliance camp was not unsympathetic toward the idea of a merger with Mosgiel and talks took place. The idea of a merger pleased everyone.

The DFC board itself is hardly short of experience when it comes to company restructuring and mergers.

Chairman John Mowbray is a former general manager of the National Bank, and a director of Tasman Pulp and Paper and the DIC. Both companies have been involved in restructuring. Another DFC director is Sid Chatten, former AMP Society chieftain and chairman of the statutory board of Perpetual Trustees Estate and Agency.

Bunting director Ken Grenney is also on the DFC board, and that company itself was seen to be involved in major changes last week.

The Government viewpoint on industry rationalisation is represented by Deputy Trade and Industry Secretary Geoff Datsun.

So here was a merger in the making for Dunedin.

But no-one had told Alliance about the alarming plunge in profitability at Mosgiel.

Mosgiel not only achieved the dubious distinction of disclosing the worst interim result imaginable at a loss of $1,527,000.

It also shocked Alliance, which immediately went cold on the thought of a merger with such a badly bleeding company.

Within hours, Alliance had wheeled out its own interim result. It too had suffered over the past year and half-yearly earnings were $256,000, compared with $520,000 in the first half last year. But when it is considered that Alliance only made $72,000 additional net profit for the rest of the year, there was actually an upturn.

Indeed Alliance had also managed to offset a $94,000 exchange loss as well. The report fairly gleamed compared with Mosgiel's.

A merger situation was transformed immediately into a potential takeover situation with Alliance holdings the cards of an export business heading towards $8 million this year and a more prosperous carpet yarn operation.

Alliance directors scraped together a 3 cent dividend while Mosgiel passed their interim payout.

The question now is whether the rebounding share price of Mosgiel is too high now that the ball is squarely in Alliance's court.

Mosgiel's net tangible asset backing last year was $4.04 but that is virtually irrelevant if the total tangible assets round $33 million cannot turn a profit.

Liquor merchant test case drags on

THE Commerce Commission inquiry into allegations of restrictive trade practices – regarded as a significant test case for the liquor industry – is becoming a slow-moving saga.

The substantive hearing began earlier this month, more than five months after the commission postponed the original date for proceedings, when one of the parties queried its preliminary findings in the Supreme Court.

Another dimension perhaps has been added to the case since then. One week before the hearing, the Supreme Court overturned an earlier decision of the Commerce Commission involving the Hotel Association of New Zealand.

HANZ appealed to the Supreme Court on four grounds. One was that the commission had misdirected itself in law as to the basis on which it should act when considering questions of public benefit and unreasonableness.

Upholding this argument, the Chief Justice held the commission had not done a proper weighing-up exercise of benefits and detriments.

The present hearing is into the alleged refusal by Philips and Pike of Wellington to supply certain spirits to Westport-based independent trader Bailie Wines and Spirits Limited, except on terms so disadvantageous as to be likely to deter it from acquiring those products. (*NBR* June 27, and September 26, 1979)

At stake for Bailie and other cut-price operators is the right to trade, free from supply problems.

Just before *NBR* went to press we learned that the Examiner – through the Crown Solicitor – had filed a notice of motion to the administrative division of the Supreme Court asking for clarification of certain matters concerning the HANZ decision.

The general rule is that the Chief Justice's decision is final, but in this case there may be grounds for him to reconsider what the examiner sees as an error.

The Chief Justice ignored the effect of the Hotel Association's practice on competition, one of the factors contained in the public interest section of the Commerce Act (section 21(1)(f)).

Comment

Editorial

"BOLGER denial", said a headline in last Thursday's *Evening Post*. According to the item beneath, the paper had wrongly quoted Labour Minister Jim Bolger as having said the previous day that the Government was prepared to allow the $4.81 an hour core rate for Kinleith workers under certain conditions.

While the paper was being delivered, Prime Minister Rob Muldoon was announcing that the Government had agreed to a package. It offered the Kinleith workers $4.81. And it raises interesting questions about the extent of Bolger's participation in the bargaining that resulted in the Government's offer.

But more important immediately, the 11-week dispute seemed all but over. All that remains is for workers at Kinleith to meet this week to discuss the settlement package. FOL president Jim Knox is confident they will agree.

Both sides claimed victory, of course.

The Government's agreement to lift its regulations and reinstate the settlement previously negotiated was a clear victory for the FOL. Parity has been achieved in the pulp and paper industry with workers at Kinleith, Caxton and Tasman all on the same base rate. But these rates for the industry have been tied — for a two-year period — to the metal trades award.

According to Bolger, the agreement advances Government plans to modernise the trade union movement, and he is pleased that at least one major industry will be looking to set up an industry union. Bolger had previously indicated in a speech on industrial relations that one of the most important steps needed was the development of unions covering particular industries, rather than specific crafts as at present.

Perhaps the most significant achievement is that the FOL will meet with the Employers Federation and the Government. Getting the FOL to talks — on wages policy, not wage rates — is a victory for the Government. And there's plenty to talk about. There is no general wage order, no mechanism for cost-of-living increases, and an outmoded wage-bargaining system. Just last month, the Employers Federation asked the Government and the FOL to agree to a joint wages conference "at the earliest opportunity", arguing that there was an obvious need for joint consultations on such issues as indexation and taxation. The FOL spurned the overture.

Since last September, wage-fixing guidelines have been frustratingly obscure. Knox and Muldoon did not meet during that period, despite the crying need for them to get together to try to untangle the Government's wage negotiation expectations plus a number of gut problems. The Government must now get down to some earnest conversation with the unions in an effort to overhaul a rigid system in which relativities play an uncomprising role that runs right through the wage structure. The first two settlements in each annual round of negotiations — generally involving the electrical workers and metal trades workers — set the pace for the full year. And few unions can break out from the base rate. Movement is largely possible only with working conditions. If anyone does move beyond the base rate, the effects flow right through the system — and the economy.

According to some sources, Tasman Pulp and Paper had broken ranks in reaching its settlement last month. The Government may have been misled into believing that the Tasman agreement would be not too much above the 10.5 per cent guidelines observed in earlier awards. Kinleith thus was left in a difficult position once the Tasman bargain had been struck.

The Government's concern over Kinleith, of course, was to stop the flow. If Kinleith got the $4.81, then Auckland tradesmen would be next to claim it (although why it wouldn't flow on to Auckland from the Tasman Pulp and Paper settlement is a mind-numbing point to ponder). The Auckland core rate has traditionally been tied to forest industry rates.

Relativities were established in the late 1940s through a series of Arbitration Court decisions. Thirty years later, their relevance to modern industrial relations is highly questionable. In big companies, people can be found working cheek by jowl, doing similar jobs but being paid different rates. At Kinleith, for example, there are almost 20 unions.

Knox is committed to the praiseworthy objective of rationalising the trade union structure and he deserves the Government's support. While the Government has been preoccupied with the Kinleith problems, ironically, steps toward union rationalisation have been taken by the shop employees, the drivers and the storemen and packers — a merger that will bring together unions led by the SUP's George Jackson and Ken Douglas and — depending on who you listen to — the SUP's or Labour Party's Rob Campbell.

But trade union reform and wage policy talks had not been an objective during the Kinleith strike. They have entered calculations only because of the pressure to get the strike resolved, and not because of some grand plan. Indeed, until last week, the Government's objective had been an unbending one: to keep the Kinleith settlement below $4.81. And as recently as February 29, the Government's wages policy was "quite clear", according to Muldoon. He spelled it out: "Unions and employers know that large wage settlements gained as a result of strike action are unacceptable." That was why the Government reduced to $4.69 an hour (a "generous figure" that "could have been achieved without the need for a lengthy and costly strike") the figure finally reached at Kinleith.

The Government did not intervene to cut back the pay agreement at the Caxton paper mill in Kawerau which gave tradesmen the same core rate of $4.81 an hour denied Kinleith tradesmen. The Caxton agreement was the same as that reached two weeks earlier at the neighbouring Tasman mill. So how clear is the wages policy today?

Bob Edlin

Without word of a lie

One-way voyage to flexibility

WOOL shippers forced to use conference ships by Wool Board dictate have learned that the deal between board and conference cuts only one way.

The Shipping Corporation of New Zealand (SCNZ) cancelled 300 containers of its export cargo bookings to make room for foreign goods. The corporation rerouted its ship, the NZ Pacific, to go to Longbeach California rather than go about east direct to Panama, as usual.

Exporters were not greatly disadvantaged, except for minor delays, because their goods were loaded on other conference ships.

But they make the point that they are forced to use the conference ships including SCNZ ships, in return for a guaranteed service. They are not allowed the flexibility to use cheaper non-conference ships.

But the Government-owned shipping line, has the flexibility to unload New Zealand exports from its ships and pick up foreign cargoes.

Corporation sources said this whole deal was part of its obligations to the conference.

High angora costs take a bleating

THE Chinese bunny strikes again.

Appearing as an embattled survivor of *Watership Down*, the Chinese rabbit is appearing in his angora coat on labels attached to garments produced by Sony Elegant Knitwear in Auckland.

But wait. Beneath his profile is the word "Lambswool" — and with ears looking suspiciously like the horns of a goat.

So who is trying to pull the wool over whose eyes? It is a fluffy tale.

Angora jumpers are not pure angora wool. Sony says that if they were, the price would be beyond the reach of many customers.

So the angora wool — it would be mohair if from goats — is diluted with 10 per cent nylon and 70 per cent lambswool.

Angora wool is imported from China like the rabbits destined for the cook pot which burrowed into the market last year.

Brockie's view

Corporation exports pâté and principles

AFTER 18 months of battling Venezuelan red tape the Export-Import Corporation thought it had finally won official clearance and a $20,000 trial order for pâté.

Not so. The importer wanted the order under invoiced by half to avoid a 60 per cent tax. The corporation refused, much to the importer's annoyance.

"Do you want to export pâte or principles?" was the testy reply from Caracas.

Unmoved, the corporation has now exported both. The $20,000 trial order is on its way, billed at full value, with every indication of a fast follow-up.

Why we should keep NZ green

POLICE determination to destroy this year's crop of "New Zealand green" may not be in the national interest of export promotion.

A recent copy — datelined Apr[illegible] 1980 — of *High Times*, a glossy America[illegible] magazine, lists Kiwi "grass" on its international market quotation of drug prices.

Across the Tasman, the New Zealand product is selling for $1320-$1650 a kilo, or broken down into "retail" packs.

Perhaps rather than burning the two truck loads of marijuana plants the police recently recovered from a sophisticated growing and processing operation in Wanganui they should have exported it to Australia[illegible].

They might even qualify for an export incentive.

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Comment

Mineral boom lingers just an ounce of luck away

by Peter Roberts

THIS country may be on the verge of a hard-rock mineral boom. Higher commodity prices, particularly for precious metals, have stimulated renewed interest in our mineral potential and the major international explorers have again returned to New Zealand.

Diamond drilling is at an all-time high and an early exploration success would see activity skyrocket.

The single most important ingredient necessary to transform the present interest in exploration into new mineral discoveries is luck. The quality and intensity of the search effort are also important factors.

Implicit in the renewed interest in New Zealand is a recognition by professionals that the country is under-explored and, furthermore, that it is a favourable place in which to venture high-risk capital.

The mineral potential of any country is a function of the underlying geology. Exploration companies base their decisions on where to explore on a wide range of factors such as the type and grade of mineralisation which may reasonably be expected, location, access, infrastructure, political stability, land availability, and so on.

There is no doubt that New Zealand has the credentials to become a significant mineral producer. Indeed the spectacular gold rushes to the alluvial grounds in the South Island and to the rich mines of the Coromandel Peninsula in the 1860s provided the major impetus to the country's early economic and population growth.

Not all the mines active in this period were small, and few people today realise that Waihi once hosted on of the world's largest gold mines.

Mineral occurrences in New Zealand are varied and widespread but few have been intensively investigated by modern exploration techniques.

The statistics clearly show the lack of exploration in New Zealand compared with Australia. For example, until recently less than $2 million a year was being spent on the search for minerals here compared with $150 million a year in Australia. Given that success in exploration (as measured by the number of new mineral discoveries) is a function of the search effort, is it surprising that there have been no significant new discoveries in New Zealand in the past 12 years to compare with those in Australia.

Between 1965 and 1976, exploration expenditure in Australia amounted to $141 per square kilometre compared with only $37 per square kilometre in New Zealand. In the same period less than $10 million was spent on mineral exploration in New Zealand yet the average cost of an economic mineral discovery in the world today is about $30 million!

New Zealand's present situation can be likened to that of Australia in the 1960s when our neighbour also suffered from a chronic balance of payments deficit and relied primarily on rural exports to provide the earnings necessary to pay its way in the world. We are in the same position today.

But in Australia a rash of major mineral developments in the late 1960s and the early 1970s fuelled a boom in mineral exploration and development, and today minerals are that country's largest single export dollar earner.

The rapid development of a mining industry here could offer an early solution to our balance of payments problem by import substitution and, more importantly, through substantial export earnings.

The potential importance of one or more major mineral discoveries to the economy in New Zealand can be illustrated with one example. In 1935 the Waihi Mine produced bullion worth $35 million at today's prices, and the mine was a steady producer for more than 40 years.

Two major objections are voiced by most New Zealanders to mineral exploration and development, particularly if the organisation concerned is a multi-national. The major concern is that most of the wealth created by a new mineral discovery would accrue to the benefit of foreigners.

In fact the opposite holds true and most of the wealth generated by a mining industry is retained in the host country.

For example, in Australia, where the mining industry is about 50 per cent Australian owned, the industry generated $5040 million in gross revenue in 1978-79. More than 85 per cent of this was paid out for labour, tax, Government services and supplies within Australia.

Moreover, the industry made a net contribution to Australia's balance of payments of $2810 million. Overseas payments for debt servicing and dividends amounted to $485 million which is a small price to pay for the total wealth generated.

The second major concern of most New Zealanders is that mineral development would result in widescale destruction and have significant adverse effects on our environment. This is not true.

A detailed study completed in the United States shows that the total land area disturbed by mining in that country over a 41-year-period to 1971 comprised only 0.16 per cent of the total land surface. Furthermore, 40 per cent of the area disturbed was reclaimed after mining ceased.

Provided the environment for mineral exploration continues to be favourable here, we should continue to attract the professional explorers with their high-risk capital and technical resources required to unlock our mineral wealth.

With an ounce of luck perhaps the national motto will once again ring true and it'll indeed be right again.

PETER Roberts, a New Zealander, is project manager for Amoco Minerals (NZ) Ltd, a subsidiary of Standard Oil of Indiana.
Amoco has been exploring here for the past few years for copper, molybdinum, nickel, gold, silver and other minerals.

Ombudsman spotlights strawberry moonlighters

by John Roberts

THE Ombudsman's report on the three advisory officers of the Ministry of Agriculture and Fisheries who operated various forms of private farming ventures in addition to their official employment raises some issues which go a long way beyond the allegations of unfair competition brought by their fruitgrowing competitors.

In the light of the controversy, the public can now consider the complex nature of public employment and the fundamental obligations of the state servant. The value of the Ombudsman is reaffirmed and the practice of the state services can be redefined in a way which ensures confidence in their commitment to public business.

Although Section 53 of the State Services Act, in the Ombudsman's words, places "a general prohibition on public servants undertaking paid employment or engaging in any paid occupation outside the Public Service", this does not dispose of the matter. Moonlighting is ripe at every level of employment whether it be the Prime Minister and the Leader of the Opposition writing columns in the weekly press, grave justices chairing royal commissions, wharfies cutting scrub when the ports are idle, journalists acting as stringers for overseas journals — or, for that matter, academics writing commentaries, for the *National Business Review*. Not only is moonlighting accepted; it is generally approved as an example of vigorous enterprise.

Despite cheap sneers in the daily papers about "civil servants" operating taxis in their spare time, it would be unthinkable for the State Services Commission and the departments exercising authority under delegation in applying section 53 to state servants who seek approval to take up secondary employment.

That said, there are special problems applying to public employment. They arise from two considerations:

- First, the public servant enjoys special job protections which make it difficult for employing authorities to dismiss a man or woman who is simply doing something the employer doesn't like. That security of tenure restricts the ability of the public employer to raise the threat of dismissal to stop an officer from acting in ways which are believed to be incompatible with the objectives of the department.

- Second, and of course most important, private employment and public duty may conflict. We can dismiss the claims of the fruit and vegetable growers that they were subject to unfair competition by the Ag and Fish men as simple commercial jealousy. It should not have the slightest influence on the commission or the Ombudsmen. Presumably, the growers endorse private enterprise and can work as hard as they choose. Unless there is evidence that the advisory officials used their official position to manipulate the market — and there appears to be none — allegations of dumping are straightforward nonsense and should be treated as an example of that unreasoning prejudice against the public employee which one finds so prevalent among farmers who greedily accept the advisory services and financial support ladled out to them by the same public employees.

Yet there is a point buried in their selfish pleading. The farm advisory officer is there to make his clients, however ungrateful, as efficient as they may be. While Ag and Fish no doubt believe that their men will be all the more effective if they get mud on their boots at the weekend, we must remember that their competitors are also departmental clients. It is not unreasonable for the client to suspect that if the weekend farmer finds a way to grow a better strawberry, the farm adviser will have to struggle with his private inclinations when he puts on his official hat next Monday.

Confusion is further compounded once we move into the fields of policy and opinion. Here the leading case (as everywhere) is that of W B Sutch, who was not only a distinguished senior state servant but also a prolific independent writer and commentator — the ultimate intellectual moonlighter. Sutch was invited to resign earlier than the regulations strictly required because in part, it was thought that his official behaviour in relation to trade policy was incompatible with his obligations to Government. Whatever, the justification for that action would it have been in order for the State Services Commission to require him to cease and desist from his publishing on the grounds that it compromised his effectiveness as an officer of the (then) Department of Industries and Commerce? We should all have been the poorer for the lack of his vigorous and cogent argument whether we agreed with them or not. On the other hand it is not unreasonable to suggest that the Government's hopes of persuading pressure groups that the department's policy was being vigorously pursued might have been dimmer.

To their credit, and in the higher interests of an open society, it appears that neither the Government nor SSC sought to muzzle the private Sutch. This seems to be the proper rule to follow.

I do not argue that conflict will not arise and when the work of the Government may be clearly compromised the official should be warned off. Where that result is not clear liberality should prevail.

As to the practical issues of whether the officer's moonlighting compromises proper attention to his departmental duties, that must be left to the department and the State Services Commission. Clearly where it appears to be the case, the officer must change his ways or be sacked.

No doubt the SSC and the department will be busy re-examining their policies and sharpening up their administration as a result of the Ombudsman's unusually blunt criticism.

Finally, how valuable it is to have an officer of Parliament who can get at the facts and speak without fear or favour about behaviour which otherwise would be locked in departmental obscurity. The Ombudsman is the *only* person who can have access to all departmental action with the authority to reveal it for our scrutiny. It is far less than the freedom of information we should have, but on the principle of gratitude for small mercies let us all give thanks for George Laking.

Professor John Roberts is professor of public administration at Victoria University.

Letters

About face incorrect

THE comment by Warren Berryman stating that the Government Life Insurance Office decision to build an airport hotel was an about face by the Government and that *the State was now building* hotels (*NBR* March 10) is not correct.

The Government Life Insurance Office is not Government-owned as Mr Berryman states but is owned by the policyholders of that office. It has its own board of investment charged with investing the funds of the office in the best *interests* of its policyholders.

The decision to buy the land near Auckland Airport and build an airport hotel which will be operated by Travelodge was a decision by the investment board of the Government Life Insurance Office after careful investigation and after individual members of the board had satisfied themselves that the project was a sound investment of policyholders' funds.

In deciding to proceed with the project the board acted in exactly the same manner and with the same objectives as investment boards of other mutual life insurance companies.

The Government neither directed the board nor attempted to influence it in any way.

It was most unfortunate that Mr Berryman did not check *the facts with my office while* preparing his article.

Hon D F Quigley
Minister in Charge
Government Life Insurance Office

Computer price low

WE wish to draw your attention to the 'Profile' (*NBR* February 18) on Kit Parts Ltd written by Ann Taylor.

The article is presented in an informative and interesting manner, but includes one basic inaccuracy that we feel is our duty to correct. Your reporter states: "The cheapest home computer available here costs between $1300 and $1800" which is not the case.

Our company has for several months been retailing a range of micro computer systems developed by Ohio Scientific in America which start (including sales tax) at a price of $536 for a fully featured Superboard II processor – a far cry from the $1300 quoted.

D Anderson
Technical Associate Director
Computer Consultants Ltd

Alcohol options

I HAVE not seen the ALAC report on liquor pricing, but Warren Berrymen's *review of* the case for higher liquor prices (*NBR* February 25) is far enough away from the economic case for me to state it simply.

The economist assumes "that ordinary mortals know their own best interests and will not self destruct on alcohol". The problem is to co-ordinate individualls consumption activities with the rest of society.

This can often be done through the price mechanism, whereby individuals are charged for the resources they incur to society by their consumption. Admittedly there are a number of arguments for subsidization of the cost of the product, but they do not apply to alcoholic beverages.

Normally a product incurs resources equal to those required to produce it. For some, and liquor is a good example, society may incur costs above those of production. For instance alcohol consumption may generate accidents, sickness, or social distress which require *Government expenditure such* as accident compensation, hospital costs or a social security benefit following a marriage breakdown.

We have at least three options. We could abandon the welfare state and leave the private market, including litigation and insurance, to bring the costs of alcohol drinking up to its social cost.

Or we could use a heavily centralised approach with restrictions on drinking, and paying the additional costs out of general taxation. This is what we do today, in effect subsidizing the cost of alcohol to drinkers.

Or we could introduce some form of social insurance whereby drinkers, in effect, insure themselves for additional costs through some state promoted scheme.

The easy way to do this is to place a levy on the consumption of alcohol equivalent to the average social costs incurred. Ideally the levys would be paid to the Government agency which incurs the costs. This "user group pays" *principle is no different from* our present funding of the roading program or accident compensation.

If the present subsidies to alcohol consumption through neglecting to charge drinkers for additional costs were withdrawn and there was no reduction in consumption, the effect of the charge would be to transfer the costs of alcohol abuse to the alcohol abuser. *Not a bad outcome.*

If there was also a drop in consumption, then this would indicate that the present subsidisation was economically inefficient, because individuals were drinking more than they would if they had to pay the full costs of their activity. At the same time there would be a fall in alcohol abuse.

Incidentally, Steve Connor and myself have estimated the price elasticity on the demand for beer for the period from *1956 to 1978*. The elasticity seems to be about .4, that is a 10 per cent rise in price reduced beer consumption by around 4 per cent.

This suggests withdrawing the subsidy to liquor drinkers might not only lead to a fairer distribution, but increase economic and social efficiency.

Brian Easton
Department of Economics
University of Canterbury

Politics

What price the democratic way of life in NZ?

by Colin James

THE Security Intelligence Service seems to have improved since the days a dozen years ago when an agent got caught spying on students and lecturers at Auckland University.

At first count there were only five errors (though later counts upped that) in its list of 32 Socialist Unity Party members active in the unions.

Such a high degree of accuracy attests to years of unstinting work beyond the call of duty – all those hours standing in the midnight rain in midwinter, or worse, attending SUP meetings.

We should be grateful for the dedication and skill with which they have, as SIS book writer Michael Parker put it, *penetrated "to the core"* the organisation that preys most on our Prime Minister's mind.

So, indeed, should those sceptical middle-of-the-road unionists I talked to last week who did not think the SUP was a serious problem in their unions or the union movement – or who thought the SUP is actually a reactionary and at times restrain*ing influence.*

But this is not a sideshow. It is a serious matter. Once they had got past the jokes along the lines of "this team would never beat South Africa", their reaction was one of puzzled concern about the Prime Minister's motives.

If you listen to the Prime Minister himself, the explanation is clear. In his view the SUP is subversive and disruptive and he is trying to make people aware of the threat in their midst and stir *them to combat it.*

Of course, as has been frequently pointed out, being subversive is not illegal. The SUP is not an illegal organisation (though the Prime Minister adds ominously "at present", when conceding that point).

But is the SUP subversive? Does it attempt, incite, counsel, advocate, or encourage *"(a) the overthrow by force of* the Government of New Zealand; or (b) the undermining by unlawful means of the authority of the state in New Zealand", as the Security Intelligence Service Act puts it?

Executive director of the Employers Federation Jim Rowe, for instance, told a radio reporter that the SUP was working towards "the overthrow of our type of society".

The SUP was, he said, using *"the maximum disruption to* try and weaken our economic system – to show that the capitalist system is on its last legs, to pave the way for Russian communism."

On page 13 in this issue a London Financial Times correspondent argues that unions have become a battleground between the East and West.

On the other hand, SUP leaders have been making noises recently about respect for elections and so on that, if taken at face value, would suggest they are committed to a pluralist society.

We might note also that the Communist Parties of France and Italy are among the biggest in their respective countries without, so far, wrecking the democratic system.

For myself, I have not studied the policies and directions of the SUP closely enough to be sure whether it comes within the above definition or not – though it does seem, to put it no stronger, that there is scope for arguing it does not.

Be that as it may, there is a widespread belief that the SUP is a sinister organisation.

This belief springs principally from its unashamed connection with the Brezhnev regime – a regime not exactly dedicated to the way of life you and I prefer.

Its loyalty to Moscow has been rewarded with support here and that support may have run to gifts of money, though no proof has yet been offered.

As a party, the SUP does have longer-term aims than the satisfaction of the im*mediate money needs of the* workers.

The SUP might also, as some people assert, be bigger in reality than its official *membership list, which the* Prime Minister said on television last Tuesday had been around 150 for some years.

*It has an influence dis*proportionate to its numbers.

It also appears to have become more visible at district trades council level in recent years – and now at the level of Federation of Labour secretary and national council (though, as far as I can see, SUP policy planks still get voted down with an almost ritualistic regularity).

Is this increased presence the result of some deep and cunning plot which is unfolding relentlessly before our indolent eyes?

And does it automatically *bring with it, and account for,* industrial unrest?

There may have been some rigorous research which will answer one or both of those questions in the affirmative.

If so, I have not seen it. In the meantime I must conclude that the casual links the Prime Minister seems to take for granted have not been proven.

I am not saying that they have been disproved or cannot be proved. The point I am making is that the British-inherited way of life the Prime Minister wants to preserve intact requires proof before conviction and sentence – before further readings from the Beehive Papers or, perhaps, the banning of the SUP.

It often happens that economic downturns bring industrial unrest. There were even wildcat strikes in Sweden in Germany in the mid-1930s.

And in such times normally docile unionists will be more ready to vote in militant leaders, of whatever persuasion. Ken Douglas became *FOL secretary not on SUP* votes alone, but on the votes of non-SUP unionists.

It is noticeable that the people the Prime Minister named were concentrated in three unions containing large numbers of low-paid workers – drivers, storemen and packers and labourers.

In such circumstances, it is at least arguable that if the Government could do a bit better with the economy, the Red tide would recede.

One must sympathise with *the Prime Minister on that* score. The economy is proving damnably resistant to his brand of miracle.

So he draws up the battle lines, expelling Ambassador Sofinsky and issuing a list of names (partly, no doubt, to satisfy insistent calls from National Party branch annual meetings to "tell us who they are").

And he is in his element. As political scientist John Henderson has written of his "operational code": "For Muldoon, politics provided an attractive profession because of, and not despite, the tough battles it involved . . . war imagery abounds in Muldoon's writing."

There is another way. It is called cooperation.

In industrial relations it would mean positively encouraging Jim Knox in his attempts to get some order and to start reforming the rickety union structure.

It would mean working with the (overwhelmingly moderate majority) leaders of the union movement to develop an income strategy. It would *mean treating unions as part* of the corporate fabric of the country.

Instead, the Government played an adversarial role leading up to and including the Kinleith dispute. Whatever olive branches were eventually offered (opposed, not instigated, by the back bench MPs in the caucus, by the way), it was the threats that loomed largest last week.

Adversarial politics enhance the appeal of and sympathy for groups at the other pole – the SUP and other assorted Marxist-Leninists, Maoists, Trotskyists and fringe leftists also now more influential in the unions. More people are likely to see their extreme stand as the only genuine opposition to a more provocative Government.

Cooperative politics seeks ways of drawing people *together through participa*tion. It welcomes elections, as a means of doing that. Thus the cooperative politician would encourage Mat Rata to test his new Maori policies in a by-election, that is, within the parliamentary system.

Instead the adversarial Prime Minister (joined, to his discredit, by the leader of the *Opposition) complains about* the cost of a by-election.

Well, we were all taught in school that democracy is a costly business – in apparent inefficiencies, in money, in patience. But were we not also taught that it is a small price to pay for justice, liberty, care and tolerance?

Official lists of names which encourage resentment at citizens conducting themselves lawfully are not part of that way of life.

Economy

Statistics: a run-down for the average mind

Economics Correspondent

HISTORY may show that Prime Minister Rob Muldoon failed to manage the New Zealand economy. But though he may have succeeded at nothing else, it is undoubtedly true that Muldoon has raised public consciousness about economics and the use of statistics.

In his book, *unimaginatively* titled *Statistics: Their Use and Abuse*, Peter Lane attempts to capitalise on the *enthusiasm* to know more about statistical techniques. He has written his book for the layman with "an average mind and the desire to find out what it is all about."

Indeed, the book is clearly enough written. It includes examples based on familiar statistical series to make it relevant to the New Zealand reader. Those with average intelligence should have no difficulty understanding common but complicated statistical techniques like standard deviations and *regression lines*.

Recording statistical observation is not enough. Any given information must go through a series of processes before it is ready for use.

First, data must be collected from declarations by individuals, firms and organisations. Of course, individuals may try to withhold information so information may require cross checking.

But there is a limit to the time and expense that can be devoted to any statistical exercise. Sometimes it is best to deduce information by a sampling method.

To analyse the data, individual figures are commonly *classified into broad groups*. The need to deal in broad classification groups means that data are poorly specified. Often the choice of classification headings is arbitrary.

Once data are collected and classified, they must be organised in a form which has meaning. Lane's book is devoted to the explanation of data processing techniques for evaluating statistics.

The usefulness of statistics may be more apparent if the data are clearly presented. The statistician can select summary results which are appropriate for the purpose in hand and present data in a form which can be easily understood.

Among the numerous devices for presenting figures are tables, histogram or bar diagrams, time series plotted on a gragh and pie diagrams.

Finally, the information may be applied to a particular problem. When properly used and understood, statistics are essential aids to economic analysis.

The *meaning* of "average" probably seems clear to most people. But statistically, there are several different kinds of average.

If you think about it, we tend to use the term "average" somewhat loosely. As Lane points out, sometimes we mean "normal" or "typical".

In fact, it is not helpful to know the average in most cases. What we are really interested in is measures of central tendency.

In the end, even the most unusual person must fit in somewhere.

Lane achieves his objective of taking his reader gently through the data processing system. He explains many of the statistical concepts so clearly that understanding them seems almost too easy.

To interpret information, data must be assessed in terms of stated goals. All the statistical and economic training in the world will not compensate for the fact that the Government does not know in which direction this country is heading.

Peter Lane
Statistics: Their Use and Abuse
Methuen, 1979

British performance disappoints OECD

Economics Correspondent

THE latest survey of Britain by the Organisation for Economic Cooperation and Development (OECD) reports that North Sea oil has not proved to be quite the panacea it was expected to be.

In contrast to 1978, *economic* performance last year was characterised by little growth, accelerating inflation and a sizeable balance of payments deficit.

The OECD said these symptoms of Britain's poor economic performance were strongly influenced by large increases in salary and wage earnings and in turn, in real personal disposable income. As a result, consumer demand *rose markedly in both* 1978 and 1979. Much of the rise in consumer demand spilt over into imports, which rose by over 11 per cent in volume.

Accelerating unit labour costs and sizeable effective appreciation of sterling combined to give a loss of competitiveness which not only induced imports, but resulted in weak export growth."

The current external *account deficit* swung from a small surplus in 1978 to a deficit of 1.25 per cent of gross domestic product (GDP) in 1979, despite the rise in North Sea oil and gas production to between $10 and $15 billion.

The only good news is that the rate of unemployment edged down for much of last year, though in recent months it has begun to rise again.

And with economic activity *turning* down after mid-*1979*, a fall in GDP of about 2 per cent is expected in 1980. There will be a considerable rise in unemployment.

What growth there is in the British economy is attritubable to North Sea oil.

Excluding the return from this oil, the volume of output would not be much above the level it was back in 1973. This compares with a rise in the *volume* of output of about 20 per cent in the rest of the OECD countries between 1973 and 1980.

Manufacturing *production* in Britain has shown much the same pattern.

After some improvements last year, manufacturing production in 1980 is expected to fall 6 per cent below the 1973 level, while in the rest of

the OECD countries production is forecast to be about *13.5 per cent higher.*

The major impediments to growth in recent years, says the OECD, have been unsatisfactory balance of payments conditions and the emergence of strong inflation.

Import penetration, reflecting the general loss of manufacturing competitiveness, has played a major role in the weakness of the balance of payments.

The rate of inflation moved quickly into double digits after a steep upward trend in pay rises was established in 1970.

Over the last 10 years, the inflation rate in the United Kingdom has been about 1.5 times above the average of other OECD members. Also, the rate has fluctuated significantly more than in most other major OECD countries, thus in itself playing a destabilising role.

British economic performance was also inhibited by lack of steadiness in management of the economy.

The OECD reports that "during much of the 1970s, monetary, fiscal and incomes policies were subject to periodic destabilising swings which by creating uncertainty have inhibited supply and increased inflationary pressures and import demand".

Government policy swung to an *expansionary tack in* 1977 and pressure on pay formation was relaxed at the same time. The combination of higher *real earnings,* tax cuts and increased social welfare transfer payments meant that consumer demand greatly exceeded the economy's supply capacity. Real personal incomes in 1978 and 1979 taken together rose by about 12 per cent and real output by *about* 4 *per cent.*

The spillover into inflation and imports meant that the benefits of rising North Sea oil *production were used to* finance current consumption rather than productive investment.

To break out of the high-inflation/slow growth trap and restructure the economy, the Thatcher Government adopted a fresh approach to economic management.

The Government places greater emphasis than in the past on stable monetary policy within a context of increased market orientation of the economy.

It intends to confine the role of the State to setting a consistent framework within which private enterprise and initiative can be encouraged.

The assumption that tight monetary policy is necessary in order to reduce inflationary *expectations is central to the* Government's approach.

And the OECD argues that "faced with the longer-term problems and recent trends in the economy, the Government has no alternative but to maintain strict and steady control over monetary growth in order to reduce inflation, even though the prospect for the short term is perhaps for some decline in output and *employment*".

With North Sea oil developments progressing sooner than New Zealand's own energy development, we are in a position to learn from the British experience.

So far British economic performance is still disappointing. And new employment opportunities which are supposed to be a bonus of development of energy *resources still sit far off into the* future.

Perhaps Thatcher's fresh policy approach will accelerate the trend toward growth. But before our Government takes similar steps, it might be worthwhile to sit back and watch what happens in the United Kingdom first.

Quote

"TODAY as opposed to 20 years ago, there are far more professional men entering our Parliament and that I believe is a good sign even though some of them are lawyers." — Rob *Muldoon* addressing New Zealand Society of Accountants, February 29.

Energy

Computer control cuts cost of conditioning

by Lani D Hunter

IN energy conscious times, it's news if you can save a third or more of the bill to keep your office building heated or cooled.

An Auckland-based company, Energy and Security Management, confidently claims such savings through the use of individually designed computer-controlled systems of operating the air conditioning, ventilation and heating functions within the building.

A division of Collier Fletcher Real Estate, the company has been operating for three years and has installed its systems in 13 Wellington buildings and seven in Auckland.

E and SM claim that by rationalising the use of existing plant for optimum performance 24 hours a day, it can radically reduce energy consumption.

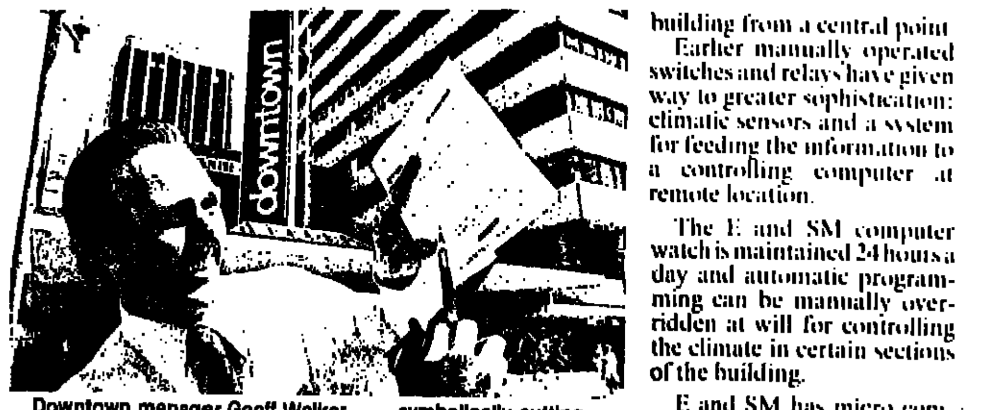
It says that in each of the 20 buildings programmed, the savings have been greater than the original estimate quoted.

The average saving is one third a year, although a bill for fuel oil has been reduced by 15 per cent in one case, 60 per cent in another.

The system installed at the Downtown Shopping Mall in Auckland is praised by manager Geoff Walker.

His power bill for air conditioning had been cut by more than 40 per cent during the summer, resulting in a saving of $6300 over 12 weeks.

Other buildings on the computer network in Auckland are the Hotel Intercontinental, the Travelodge Motor Hotel and Fletcher House.



Downtown manager Geoff Walker . . . symbolically cutting his power bill in half.

E and SM sales manager Rae Nield said the system concept evolved from American research into techniques of "driving" the services of a building from a central point.

Earlier manually operated switches and relays have given way to greater sophistication: climatic sensors and a system for feeding the information to a controlling computer at remote location.

The E and SM computer watch is maintained 24 hours a day and automatic programming can be manually overridden at will for controlling the climate in certain sections of the building.

E and SM has micro computers in the company headquarters, Energy House, Hobson Street. They are connected by Post Office circuits to a master control panel in each monitored building.

The panel is continuously fed with temperature and humidity sensors placed strategically inside and outside the buildings.

Nield said: "What we aim for is maintaining comfort conditions inside the building at all times and using the minimum energy input to do so.

"One of the most important factors is using as much outside air as possible.

"Every building has different needs, depending on the type of plant and its energy source — electricity, gas or oil.

"Downtown Shopping Mall for example is interesting because it needs cooling almost all the year round, and very rarely needs heating.

"Most big buildings in New Zealand depend on gas-fired boilers for heating, whereas smaller buildings are usually all-electric.

"It is the big buildings where owners can enjoy massive savings in oil consumption."

Nield said installation in an office centre cost an average of $20,000 depending on the complexity of the building and plant.

Recovery of the installation costs was virtually guaranteed by operational savings in energy consumption over two years, she said.

E and SM employs 18 computer people and engineers plus shift workers for the computer watch.

Fiat drives into the alternative fuels marketplace on cow dung

by Warren Berryman

'TOAST your morning' slice with energy from a cow pat, and still have enough cow dung to heat a bath and drive the chill from the living room. Then drive to work on a handful of sawdust in an alcohol-powered car.

It might be a far cry from the Indian housewife following the cow with outstretched apron to gather cooking fuel. But the principal is the same — less dependance on imported oil.

Fiat, which with Volkswagen pioneered the alcohol-fuelled car in Brazil, is interested in having the car tested in New Zealand.

Fiat also produces a total energy module (Totem) which produce electrical power and hot water from diverse fuels — LPG, methane, methonol, manufactured gas, alcohol, or biogas.

Auckland-based Torino Motors, the agent for Fiat, is researching the New Zealand market for the Totem system.

Totem consists of a modified Fiat 127 motor coupled with an electrical generator which produces electrical power and links to a series of heat exchangers to provide hot water for heating.

The manufacturers claim the system is 90 per cent thermally efficient. An ordinary petrol engine is about 25 per cent efficient.

Totem achieves the additional efficiency by making use of the heat that would ordinarily be lost in the engine's exhaust, cooling, and lubricating systems.

In rural setting the unit might be fuelled with biogas made from cow dung or alcohol made from farm or forestry wastes. The electrical power could be used to power the farmhouse, cowshed, farm machinery, and the hot water to heat the home or dry crops, sufficient to provide power and heat for 20 flats.

In the city or suburbs, Totem runs off the gas mains and could provide power and heat for a high-rise building.

As the Government pushes up the cost of electricity, the system looks more and more attractive.

Torino Motors is looking for potential buyers, primarily in farming and forestry, where distance from electrical power supply and/or the availability of waste convertible to fuel would make the heat/power system attractive.


Fiat . . . Totem extends use.

Totem has attracted interest from owners of high-rise buildings.

The Totem system has been designed so that — local conditions permitting — excess power might be fed back into the electricity grid and credit obtained against the power required to start the engine.

Torino's market researchers have yet to approach the Electricity Department which jealously guards its monopoly on electricity supply.

But it is not electrical energy that poses an immediate problem — except that we have a 25 per cent surplus of unused electricity.

Transport fuels are the *major problem*. Methonol and alcohol present attractive options to imported oil.

Local car manufacturers are loath to convert car engines for their use.

During World War II, Brazil had problems obtaining fuel. Necessity fostered invention and research into alcohol.

In 1975 the Brazilian Government established its National Alcohol Programme aiming to develop alcohol for the national vehicle fleet.

Volkswagen and Fiat entered the picture with alcohol-burning cars. Official cars using petrol are being replaced by alcohol-driven cars and ordinary consumers are now getting into the act.

Fiat has the Brazilian-made Cachacinha, a 100 per cent ethylic-alcohol driven Fiat 147. After cross-country testing, this car is being sold in Brazil.

The basic differences in the alcohol-driven and petrol-engined Fiats are in the fuel system, where corrosion-resistant parts had to be used.

The compression ratio of 7.5 to 1 had to be increased to 11.2 to 1 in the alcohol engine. This necessitated better sealing, and spark plugs with a lower thermal degree.

Also modified was the carburator, where different jets are used and the carburator heated to vapourise the alcohol.

Because alcohol does not vapourise as well as petrol at low temperatures, the engine is started up on petrol and switched over to alcohol when warm.

Garages change credit system

by Rae Mazengarb

"ADVANCE payment system" will be the norm for service station proprietors within six months.

Several proprietors have already made clear to their customers that they cannot survive by continuing to sell petrol on the usual monthly terms when the oil companies are operating on a "fill-to-fill" basis.

Many more dealers will follow.

Motor Trade Association executive director Trevor Bates said that to assist members with the switch to a new accounts system, the association would provide a contract form drawn up by solicitors.

One step beyond mere "cash for gas", the advance payment system — already successfully operated in South Africa for the last two years — operates on the same lines as a cheque account.

A customer would normally deposit with the service station a deposit equal to one month's petrol purchases. Petrol can be drawn on the account providing it is in credit.

Outstanding credit at month's end would then be transferred to the new month and a further deposit made, to bring the account back up to a reasonable level.

In the short term, there will be some concern from garage proprietors about retention of customer loyalty, but as more and more move over to the pre-payment system, this concern should fade.

Industrial relations

Attention turns on power bloc links with unions

by Brian Groom
of the *Financial Times*

As East — West tensions mount the big powers are sending in their trade unionist "troops" to secure vital information and inflame industrial relations.

In that light, Prime Minister Rob Muldoon's release last week of 32 SUP names can be seen as part of the contest between left and right-wing in the world's trade unions.

Muldoon claims that the 32 people he named from information — the accuracy of which has been challenged — provided by the Security Intelligence Service, are using their influential trade unionist positions to carry out the policies of the Moscow-orientated Socialist Unity Party.

After military intelligence, some observers claim, the most vital area of intelligence is the trade union area, which covers military, political and economic affairs.

The expulsion of Soviet Ambassador Vsevolod Sofinsky could have been the first step to clean up our backyard as American, British and French security services counter attack against Russian infiltration.

The Socialist Unity Party has long been Muldoon's bogey. And it must be remembered that the National Party's dancing cossack advertisements during the 1975 election campaign were held to be a big vote winner.

The Prime Minister's actions may be seen in an international context, as spelled out in this report from the London *Financial Times*.

THE world's two main power blocs have long taken a keen interest in the affairs of each other's trade unionists and those of the Third World.

The resurgence of East-West hostilities after the Soviet invasion of Afghanistan has focused attention on allegations of secret activities which show that in some respects the Cold War never ended.

In New Zealand, Soviet ambassador Vsevolod Sofinsky was expelled in January after being accused of passing several thousand dollars to the left-wing Socialist Unity Party, a party tiny in numbers but with considerable influence in the trade union movement.

Attention has also focused on Europe and North America. In Britain, George Young, a former deputy director of the MI6 intelligence service, said at the height of the recent Anthony Blunt spy scandal that the main thrust of Soviet intelligence activities had long since shifted from recruitment among the intelligentsia to the industrial sphere.

Encouragement for this view came recently from a report, by Dr G K Busch, a former trade union official in the United States and Europe, published by the London-based Economist Intelligence Unit.

Busch claimed that the Eastern bloc's attempts to subvert its enemies through trade unionists were matched by the West's covert attempts to nourish dissident labour activities in Eastern Europe, as well as by counter-intelligence efforts at home.

"After military intelligence, the most vital area of intelligence is the trade union area, which covers military, political and economic affairs," he said.

Busch's report indicates how tit-for-tat espionage may give cause for thought to businessmen as well as trade unionists.

Union contacts provide information on markets, products and sources of supply to their secret service masters, he says. They also do their best to exacerbate companies' industrial relations problems. And there are "sleepers" on both sides of industry who could be activated in a war.

These activities can be seen, perhaps, as linked to techniques of Eastern bloc espionage revealed in the past, such as the recruitment of women secretaries in Western companies.

But many would argue that such activities rarely affect individual businesses, and serve mainly to encourage those who would like to see more "covert action" - this time in counter-intelligence. In the current British debate over telephone tapping, it has been claimed that union telephone conversations are monitored during strikes.

Busch himself says that efforts by East European secret services to expand Western union contacts have led to the United States, British, West German and French intelligence services routinely watching the movements of trade unionists in their own countries.

Left-wing trade unionists in Britain claim that unsubstantiated smears about trade union "wreckers" being in the pay of Moscow give a tremendous propaganda boost to supporters of private enterprise.

The left in New Zealand has also claimed that the expulsion of Sofinsky, conveniently provided the conservative Prime Minister Rob Muldoon with a dramatic response to the Soviet invasion of Afghanistan, and a means to distract attention from New Zealand's economic problems.

Busch's evidence of espionage is, he admits, "sketchy", but he does give some details. He alleges, for instance, that Vladimir Bukrayev, former head of the publications department at the International Labour Office in Geneva, was asked to quit in 1978 after British revelations that he was working for the KGB. The report contains a number of similar allegations.

Busch is a former head of international research at the American United Auto Workers (UAW) and former assistant to the general secretary of the Geneva-based International Chemical Workers' Federation (ICF). Both are highly independent.

The UAW is outside the main American AFL-CIO federation, which has been criticised by many European trade unionists for its activities abroad, and the ICF had a long battle against the now defunct, Denver-based International Federation of Petroleum and Chemical Workers, which it believed to be a CIA creation. The ICF has also shown hostility to the Eastern bloc.

Busch intends publishing a second report, covering the Third World, in May. Controversy in this sphere has traditionally centred on the effect of American money on trade unions in South America, Africa and Asia.

The left has always argued that Western Governments have been more successful then their Eastern counterparts in influencing Third World trade union affairs, and that this has benefited multinational companies.

Another researcher, Don Thomson, in 1978 published a controversial book for War on Want, on the shortcomings of trade union internationalism, which included several allegations of CIA involvement.

The involvement of Governments of the big powers of both East and West in trade union internationalism has, Thomson says, been "a tragedy for the Third World" because of its tendency to weaken genuine worker movements.

One sure thing is that, in the current cold climate of East-West relations, any further exposés will be seized upon by those who seek good propaganda.

Templeton rhetoric: the reality of restructuring

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses company accounts.

DEPUTY Finance Minister, Hugh Templeton, gave a significant speech to the Bureau of Importers and Exporters in Auckland on March 7.

His words received limited coverage, but they were important in the context of understanding Government economic and development policy.

After setting out what the Government had tried to do since 1975, Templeton talked of the need for "greater understanding", and gave a guide to current Government thinking:

"First let us start by understanding the pressures on our balance of payments. We are in effect drawing on the nation's bank balance well beyond what we have earned. We have had to borrow extensively to meet the challenge of escalating oil and import prices and to provide for development.

"Let us secondly accept the importance of restraint in our internal economy. Without restraint in our consumption and particularly our wage claims we cannot maintain the competitiveness of our export sector and our industry.

"There is no alternative to limiting wage and income demands *and all highly desirable social and humanitarian expenditure*" (*NBR* emphasis).

Templeton seems to be saying that education, health, and *social* welfare will be held, or decreased in real terms, to keep the internal cost structure down, and to provide the resources for export oriented industry.

That is another way of saying that transfer payments cannot be increased until we broaden the base from which they are financed.

Templeton referred to the proposals for the textile industry when talking about restructuring. "This report echoed steps that would have been required in any case by individual companies. But it provides an overall basis for revival of an industry *that would not have survived in its present form*. (*NBR* emphasis).

"We shall have to do the same with other industries if they are to remain and develop".

The minister had some noteworthy things to say about the present business climate. His comments about refusal to reintroduce the stock valuation adjustment scheme have been publicised, but the publicity omitted the next sentences of his speech.

"...We think businessmen should take more account, in their rather gloomy future outlook, of the influence on demand and sales of tax cuts coming forward from April 1 1980.

"I would also stress the imortance of adjusting provisional tax payments in accordance with the expected level of profits".

Templeton is saying that forward payment of taxes should be made on the basis of a possible profit downturn, thus preserving liquidity. That sits oddly with the earlier comment that the business climate is not "as gloomy as observers suggest".

"I can only stress that the Government has few feasible options available for short term action to alleviate business liquidity difficulties, for if we moved in the short term we should disrupt our budget strategies," Templeton said.

"Assistance for businesses of the kind sought would mean either an increase in other taxes or an increase in the Government deficit. This would lead either to fall in demand or an increase in inflation – or both".

"Government has therefore decided the better policy is to maintain consumer demand through reductions in personal income tax".

While Templeton may be referring to the April 1 cut, following the October 1979 revised rates, he could be signalling future cuts, both to maintain business confidence and as a pointer to union wage negotiations this year.

The Auckland speech can be seen as a combination of stating Government action in the past, outling the thrust of future policy, and as a "softening up" process for the private sector, which will soon face the reality, rather than the theory, of "restructuring".

Templeton referred to the need for closer co-ope[...] with Australia, a timely [...] rence in view of the [...] Ministerial talks last [...] and to a closely knot [...] bloc in the South Pacific.

He gave the usual [...] service to the [...] Council and the Comm[...] for the Future as a [...] view". Both bodies have [...] little except produce [...] exhortation and lists [...] tions with few solution[s].

The Planning C[...] seems singularly afraid [...] lowing any controversy [...] ing over its voluminous [...]

It can also be ineffec[...] looking for new strategie[s] illustrated by the reque[st] leading member to a p[...] sector sole trader for [...] mation about planning [...] overseas country. We [...] substantial resources [...] Council could obtain [...] formation either by [...] two ministries of the [...] concerned, or one mem[o]dum to the High Com[mission] staff in London.

The latter could [...] the overseas gov[...] bookshop less than [...] from New Zealand [...] and put the [...] documents in the [...] bag.

Bagtrac finds luggage

EVER land on the tarmac of some far-distant airport to be told your baggage has taken another plane to points unknown?

Well, IATA has been working on a system to reduce the time you spend in yesterday's sweaty socks with a newly bought toothbrush in your pocket.

IATA and SITA (an international airlines communications service) introduced "Bagtrac" on March 1. The system, controlled by [...] operates through [...] Gabriel data [...] centre in Atlanta, G[...] and is being connected [...] member airlines thro[ugh] world-wide telecommu[nica]tions network.

In the initial stage, B[...] will use teleprinter me[...] for lost and found bag[...] Phase two, to be implem[ented] later this year, will use [...] agent display terminal[s] track down the missing [...]gage.

O'Brien on business

Analysing annual accounts: NZ Light Leathers

NEW Zealand Light Leathers Ltd is struggling to realise the potential profits which were envisaged when the company floated to the public in 1973.

The 1979 annual report shows a profit of $34,417, compared with a loss of $616,193 in 1978. Both figures include substantial export incentive tax credits.

Companies in a loss situation have been able to convert their tax credits into cash since 1978. Light Leathers received $707,630 from this source last year. The amount was $580,464 in the previous 15 months (there was a change in balance date last year, from September 30 to December 31).

Export incentive tax credits amounted to 8.97 per cent of total sales in the 12 months to December 31 1979 as against 7.15 per cent in the previous accounting period.

Light Leathers' trading experience, sales profitability, and tax credits are relevant to the wider debate regarding the country's future in the 1980's.

The company processes a local pastoral based product (lambskins) which are delivered to the Washdyke plant as "pickled pelts". The pelt is treated in a freezing works' fellmongery, where the wool is removed and sold as slipe wool. The pelt is then preserved, or "pickled").

The tanning industry is working towards processing all skins available from flocks here in the next 15 to 20 years. The goal is in line with government policy, but the approach must be realistic in terms of a return on the large-scale investment.

Light Leathers specialises in the production of "crust" leather for export. "Crust" leather is a pelt tanned to the "wet blue" stage, and then allowed to dry out.

The company also produces wet blue leather under contract – the "wet blue" referring to the colour from tanning with chrome salts, and the fact that the product is shipped in a damp condition.

The annual report is blunt about problems in 1979, and indicates a slight change of direction this year: "The company's operations in the past 12 months have been affected by the high cost of pickled pelts, and the lag in the crust leather selling prices.

"In order to reduce the company's risk exposure from major fluctuations in pelt prices, the directors decided to restrict production of leather and concentrate on improving the quality and consistency of crust tanned pelts. This policy has paid off in improving the company's result.

"The company's moves into a higher level of finished leather production have been delayed by slow delivery of new machinery, and a higher volume will be produced in the coming year.

"The company will also be processing a higher percentage of contract wet blue pelts to reduce the risk of exposure from fluctuation in pickled pelt and crust leather prices. The directors believe that this improvement in the product mix will be reflected in improved results".

Light Leathers accounts reflected the problems.

On the one hand the company's sales of $7.9 million include a high level of overseas earnings, and there is an equally high "added value" element, proportionate to total sales. That is good for the country.

On the other, the pattern of profits and losses since start-up seven years ago lives a minimal return on investment, accumulated losses of $851,592 on a capital of $3 million, and no dividends to shareholders.

The world leather market is notorious for its fluctuating prices, and this country has difficulty in competing beyond the basic processing stage. The industry is not alone in those problems.

They must be tackled in all industries, otherwise it is unrealistic to talk of great opportunities for the country in the 1980s, and further costly investment is unlikely to be forthcoming.

Light Leathers' cash flow (net profit/loss, plus depreciation) is only $449,817 in the total period since the 1974-75 accounting year.

The company is financed by $2,620,796 worth of loans, with sundry debtors ($280,058) and shareholders funds ($2,148,408) providing the remaining 46.6 per cent of the total investment.

Net asset backing is now down to 71.61 cents for each $1 share, although that is an improvement on the 57.75 cents applicable in 1975.

The "true" asset backing is probably higher, because the directors have again deferred revaluation of assets "until the company's finances have improved".

The figures quoted show the difficulties which arise from fluctuating markets and prices when overheads are a high proportion of sales.

The company may come right, but the nature of the industry suggests earnings will fluctuate in future, in common with the meat, wool, and other primary produce based industries.

Note: Recent reviews of annual accounts here (Borthwicks (*NBR February 18*) and Waitaki (*NBR March 3*) contained erroneous assessments of company finances.

In the Borthwicks case the exchange fluctuation on the investment in the Canterbury Frozen Meat Co was heavily overstated, through misreading the notes to the accounts

The whole of CFM was taken into the article, rather than the proportion owned and accounted by Borthwicks.

The Waitaki article referred to possible exchange losses on inventories held overseas. Those inventories are expressed, and remain, in New Zealand dollars at the lower of cost or realisable value. A devaluation would give the company a "revenue cushion" on realisation, provided there are no changes to markets and prices in the holding period. The question of converting the values of these overseas inventories to New Zealand dollars does not arise.

Fletchers undervalued despite proposed bonus issue

THE market responded quickly to Fletcher Holdings proposed bonus, issue of one for three.

The price went up 50 cents to $3.50, and last week appeared to settle around that figure.

On the basis of a cum issue price of $3.50, the ex bonus price is $2.62. Fletcher has suggested that a dividend of 20 cents a share (20 per cent) will be paid on the ex bonus capital, which gives a dividend yield of 7.63 per cent at $2.62.

The company has substantial funds available for the payment of dividends from tax free sources, so for the purpose of analysis it is assumed that such dividends will be made for at least the next two to three years.

A yield of 7.63 per cent from a tax free payment is the equivalent to a yield of 19 per cent from a taxable dividend for a person who is on a marginal tax rate of 60 cents in the dollar. At a 50 cents marginal rate an equivalent return of 15.25 would be needed. Both returns are difficult to find from alternative investments, whether on the sharemarket, or from fixed interest offerings.

The basic calculation suggests that Fletcher is probably still undervalued on a yield basis alone.

The probable earnings per share for the group, on an annual basis ex bonus requires more complex calculation, because the $11.35 million worth of specified preference shares complicate the analysis.

The company's net earnings for 1979-80, annualised to take account of the changing investment in Tasman Pulp and Paper Co, are projected at $23 million. The figure annualises Fletcher's 56.4 per cent investment in Tasman, and takes the latter company's profit as $20 million. Adjustments have been made to other areas of group investment, and are also related to the half-year profit.

The specified preference shares have no bonus rights, so the ex bonus ordinary share capital will be about $46 million in round figures.

The specified preference shares convert to ordinaries at 85 per cent of the market price of ordinaries at the date of conversion. For the purposes of the present assessment, we can take the ex bonus price as the base figure for conversion.

At 85 per cent of $2.62 the specified preference capital converts at $2.23. The relationship is therefore 5,089,686 ordinary shares for the 11.35 million specified preference shares.

Total diluted capital on conversion is, again rounded, $51.1 million.

It is appropriate to take account of the tax element in the specified preference dividend, if the capital on which it is paid is treated as converted. That amount, on a 15 per cent specified preference dividend, is $766,000. While it is only a small proportion of the projected $23 million, it should be deducted.

We now come down to a rounded $22.25 million as projected annualised net profit related to diluted capital of $51.1 million.

Earnings per share would be 43.54 cents, and a 20 cents dividend would be covered 2.17 times (since the specified preference shares are treated as converted, and an allowance made for the present tax benefit, there is no need to deduct the dividend on the preference capital)

When 43.54 cents a share is related to the ex bonus share price of $2.62, the price earnings multiple is 6.01, which is not excessive, given the dividend cover, and the company's likely potential in future years.

Adjusting capital and earnings for the effects of future conversion of specified preference shares is an esoteric exercise, particularly when the Fletcher conversion is based on a percentage of a future market price, which has to be related to the present price.

The combination of dividend yields from tax free dividends, projected earnings, dividend cover, and the price/earnings multiple, suggests that Fletcher is still undervalued at $3.50, in spite of the 50 cents jump in the share price.

If the cum honus price goes to $4, the fully diluted share capital is reduced to $50.5 million, earnings per share on $22.3 million are 44.15 cents, the ex bonus share price is $3, the price/earnings multiple is 6.79, the dividend yield on 20 cents a share is 6.6 per cent (16.65 at a 60 per cent tax rate) and the cover is 2.2 Paradoxically, the higher the company's share price, the fewer ordinary shares need to be issued on conversion of specified preference shares, because the 85 per cent is higher ($2.55 at an ex bonus price of $3) and converts to fewer ordinaries on a static amount of $11.35 million

Investors will place their own value on Fletcher in present circumstances, but the overall result of the exercise conducted here suggests that $4 cum bonus would be a fair price, while allowing for future growth in earnings and capital gain.

Beyond $4 cum bonus the future is further discounted, but there still seems to be a useful margin for longer term investors.

Note: The writer neither owns, nor has a beneficial interest in, Fletcher shares

O'Brien on business

Foreign companies pay quarter of corporate ta

THE *myth* of overseas domination in New Zealand industry received another blow with the Department of Statistics analysis of corporate income tax returns for the 1975-76 year.

The analysis is published in the department's latest *Abstract of Statistics*. The 1975-76 year may seem out of date, but the proportions are unlikely to have changed much since then.

The department analysed 80,410 company tax returns, of which 1,458 related to companies "with overseas affiliations".

Overseas companies are defined as "branches of overseas companies operating in New Zealand plus New *Zealand registered companies* with 25 per cent or more of share capital controlled overseas. All figures shown under this heading include both the New Zealand and overseas owned portions of the companies concerned".

The definition means that a company which is 75 per cent owned in New Zealand has that proportion also classified as "overseas", so the overall "overseas ownership" is probably less than shown in the department's figures.

The 1458 companies with overseas affiliations earned 25.5 per cent of total company "assessable income before losses", recording $286 million as against the New Zealand companies' $1,119 million.

The income tax assessed was $109 million. New Zealand companies paid tax of $418.6 million. Overseas *companies therefore paid 26* per cent of the corporate income tax included in the analysis.

The xenophobic argument about overseas companies is often based on the "bleeding of New Zealand" by sending profits out of the country. The proponents of this argument overlook the fact that, a high proportion of company profits are ploughed back into the business, while the dividends may be expatriated. They also, usually conveniently, forget that company profits are *struck after various* expenses, including the cost of locally produced raw materials, other supplies and salaries and wages.

The department included figures for dividends and wages and salaries in the table of figures.

Overseas companies paid dividends of $55 million in *1975-76, while New Zealand* companies returned $276 million to the shareholders. The overseas companies' proportion was 19.9 per cent.

Both overseas and local companies paid far greater sums in wages and salaries.

Overseas groups accounted for $622 million, New Zealand companies having a bill of $3,708 million.

The "added value" (using that term in its broadest sense, since the companies include finance organisations) of wages and salaries alone was 10 times more than the dividends paid by overseas companies, and nine times more in the case of local organisations.

When the income is related to the investment in companies, the whole question comes into better perspective.

The paid up capital and reserves (shareholders funds) of the overseas sections was $2,059 million, or 21.2 per cent of the total. New Zealand companies had shareholders' investment of $9,703 million.

The "assessable income before losses" of overseas companies was therefore 13.88 per cent of shareholders funds. New Zealand companies had a return of 11.5 per cent.

It could be argued that the difference in the return on shareholders funds "proves" overseas companies make excessive profits, and are therefore a bad thing.

Two points are relevant to that argument. First the difference is not particuarly large, although it probably varies from year to year.

Second, the department says shareholders funds for overseas controlled companies are not always comparable to those of New Zealand con*trolled* companies.

"For example, a branch or subsidiary of an overseas company may have a smaller paid-up capital than a similar New Zealand company, re[…] tive to the activities of […] companies. Reserves […] provisions also are often […] comparable to similar N[…] Zealand companies.

"Numerous overseas co[…] panies do not show deta[…] shareholders' funds. […] must be remembered […] comparing the earning r[…] overseas controlled co[…] ies".

In addition, the […] Zealand companies […] Government trading de[…] ments, for which no figure […] shareholders funds or […] equivalent are given, […] Government depart[…] may follow different p[…] policies from the private […] tor.

When those factors […] balanced up, it seems […] that the earning rate […] shareholders funds […] roughly similar for local […] overseas controlled co[…] ies.

Since the 1,458 […] companies are only […] cent of the total, […] much larger percen[…] tal income, they are […] larger organisations […] financial structure d[…] from that of the […] smaller New Zealand […] cerns.

The highest concent[…] of overseas interests […] mining and quarrying […] per cent), and chemica[…] associated industries […] (16.9 per cent).

The first industry in[…] high capital inve[…] which can be obtained from outside New Ze[…] while the second is […] nologically based, and […] on overseas develop[…] often from substantial […] organisations, which […] afford the massive re[…] costs.

Indicators decline

THE United States Dep[…] ment of Commerce's ind[…] leading indicators declined […] per cent in January - the […] drop in the index in the p[…] seven months.

The report appears to s[…] port the forecasts of m[…] economists that the Un[…] States economy will underg[…] slowdown during 1980.

Six of the 10 indicat[…] available for January co[…] tributed to the decline. Th[…] change in the money supp[…] had the greatest effect.

Retailing

Wool carpets make it on American market

by Belinda Gillespie

PHILLIP Schlein, from Macy's, has been in New Zealand to meet the big brass at UEB, and to consolidate the relationship between the two companies.

Schlein's target interest was woollen carpet.

His brief stay (four days in the North Island – two in the South "strictly for scenery"), encompassed visits to UEB's Drysdale stud farm and tufted carpet factory, and a lunch meeting with Prime Minister Rob Muldoon.

Macy's has an "aggressive programme" for wool carpets this year.

Schlein is confident that the time is right for the wool carpet in the United States, and that the UEB products will have no problem getting a share of a market in which only one American manufacturer is competing.

Synthetic carpet has held the floor. But New Zealand wool carpet, although higher priced, will be competitive at the top end of the market.

Macy's California, has been involved with UEB for the past three years.

Schlein admits to earlier mistakes. "Colours which go well in synthetics don't in wool. Pastels and light shades are best."

Adjustments have been made and Macy's has a major commitment to wool carpet.

Macy's first order in 1977 was for tufted broadloom carpet worth $500,000.

Last year the company placed an order with UEB for $700,000 worth of Persian-style woven rugs.

Sales through Macy's are expected to double in 1980, according to Ron Barfoote, general manager of UEB's carpet division.

Macy's interest so far has been in heavy duty, high quality carpet, berber styles and the Persian-inspired rugs. Schlein sees these as potentially big business not only in America but in other parts of the world.

While business looks bright for wool, Schlein is less confident about total carpet sales in America this year. They will be affected by the current drop in housing stocks.

After an earlier meeting with Muldoon in San Fransisco, Schlein expected his lunch with the Prime Minister to be a mutual affirmation of interest in developing co-operative business, not a brass tacks affair.

Other business with New Zealand? "There should be a *knitwear opportunity* – providing the design and styles are right."

From general observation, Schlein thought New Zealand had the capabilities to produce the right styles, but pointed out the stiff international competition in woollen *knitwear, particularly from* Hong Kong and Britain.

Similar opportunities probably exist for suede and leather garments, he suggested, and he was impressed by the quality of the New Zealand products he had seen.

Macy's California sells *gourmet food products in its* San Fransisco downtown store Schlein said, but he hadn't considered the possibility of looking at New Zealand lines this trip.

Phillip Schlein. . . talks carpet styles and colours in Auckland with UEB designers.

Macy's manager on shopping trends

INDUSTRIAL relations are comparatively stable in the United States, according to the manager of Macy's California $650 million a year retail business, Phillip Schlein.

We negotiate contracts for a specified time of two to three years. *For that period* it's basically a no-strike contract."

The same applies right through the unions. But in the retail sector "we have our fair share of differences of opinion with the labour force."

Though Macy's pays well by American standards, disagreements are mainly to do with supplementary benefits *and wages*.

The working woman is the most significant new factor in retailing as Schlein sees it. The trend for women to go back to work accelerated throughout the 1970s to its present level of around 52 per cent. He expects it to continue at the same rate in the next decade.

Macy's has responded with *extended trading hours* so the working couple pressed for time, can shop weekends and nights. Trading hours are locally governed, and there is some variation throughout the country, Schlein said.

He was baffled by the local Saturday trading controversy. After being foiled in attempts to shop in Auckland at the weekend, the Schleins were directed to Parnell where they were again foiled – by the crowd.

Arguments against Saturday trading failed to impress. "It can only create more jobs – particularly part-time jobs which put more women into the work force. The shop employees themselves benefit by being able to shop in extended hours." Schlein found it difficult to sympathise with the concept of the "great New Zealand weekend."

While Macy's has got out of the low-price and "couture" ranges, it has found greater markets for luxury items with the increased availability of funds from women working.

A greater proportion of the population now fall into the middle to upper-income range – Macy's target group.

Working women have different wardrobe requirements and require greater convenience than housewives, and the merchandise has to be related to their new needs.

The fate of the big store? The demise of the department store was predicted in the early 1970s with the first flourish of boutiques and speciality stores. Macy's came back with a proliferation of speciality stores – a "mall within a mall." Everything is dictated by the customer at Macy's – when customer lifestyle required a more entertaining shopping environment, Macy's responded with its new concept.

The response was the right one. After a grim period early in the 1970s the last two years have been "very rewarding. Our profits for the last six months have been extraordinary, after a steady rise for the last four years."

Decisions are made "more by trial and error than market research," admits Schlein. "We try something on a test basis before we make the preliminary decisions."

Increased vitality and interest in downtown areas is another big American trend. "*It's getting more and more* difficult to find locations for large regional shopping stations, so we are revitalising the urban areas."

There have been some major mergers amongst the big retailers in the last 10 years, but "no big rush to rationalisation." In general, the independent stores are being absorbed into the big chains.

Small shops? It's "survival of the fittest," according to Schlein. Turnover and competition is high – but the speciality shops always do well if they have a good idea.

Overall: "Shopping is now a recreation. The customer wants convenience, an entertaining environment, and the retailer has to relate to the new needs if they want to survive."

Schlein's love affair

SLIGHT, dark, soft-spoken, Phillip Schlein doesn't fit the Kiwi image of the American big-shot businessman.

Schlein has made his career with one of the United State's retailing giants, Macy's Corporation, and at 38 says he has gone as far as he wants to go. He loves living in San Fransisco and his job as president and chief executive of Macy's California.

Schlein graduated in business administration and entered Macy's executive training programme in 1957.

After various jobs in Macy's New York (which claims to operate the world's biggest store, has a total of 37,200 staff and a turnover of $31.66 thousand million dollars a year), Schlein became manager of Bambergers, a New Jersey branch of Macy's. He got the California job in 1974, and occupies a seat on the board of Macy's Corporation.

Macy's California, started in 1945 and has 19 stores in California and Nevada. Annual turnover is $650 million, $130 million in California alone. The expansion rate is about two stores a year.

His love affair with the retail trade stops short of the actual pursuit of shopping.

Government administration

Justice Dept cost-pruning likely model for others

by Colin James

A NEW broom has been sweeping through the dark corners of the Justice Department – and promises results which should please the taxpayer.

Justice Minister Jim McLay and his permanent head, John Robertson, have taken a long hard look at what the department is doing, set that against what the activities are intended to achieve and come up with a range of savings.

They have done what has been urged for many years on the controllers of state spending: cut not just into proposed new programmes – the usual short-cut to apparent saving – but into previously sacrosanct existing programmes.

Their approach is likely to serve as a model for other ministers, under instructions to go into their departments and improve their effectiveness.

In 1978 the Audit Office, in an important review of control of state spending, deplored the bias inherent in the COPE (officials committee on public expenditure) system, a bias which favoured existing programmes over new programmes.

Even with this bias, new programmes did get approval during the first three years of the present National Government – partly paid for by the "sinking lid", an arbitrary overall cut in departments' staff ceilings.

The sinking lid created anomalies and inconsistencies – not least being the maintenance of services with temporary workers after numbers of fulltime workers had been run down.

Now the Cabinet has introduced a new approach. With rare exceptions, new programmes are to be financed by cutting or reducing existing programmes. (This requirement is relaxed to 50 per cent in the case of new programmes involving export earnings, import substitution or job creation.)

A further potential saving has been built into the system by requiring the saving to be made before the new programme is submitted for Cabinet approval. Should the new programme then be turned down, the money so released was to be net saving.

Robertson sees this as a disincentive to departments making the effort to find savings in the first place.

But McLay, taking the wider political view, argues that the saving so made would be "in itself desirable". He says: "The prime objective is to achieve cuts in expenditure."

McLay's approach – shared by a number of other, mainly younger, ministers – is a break with past tradition. Ministers previously made their reputations, not by showing how little they could spend, but how much they could wheedle out of their colleagues in Cabinet barneys.

In future, if the McLay approach takes hold, permanent departmental heads will find they need a more imaginative approach to hold on to their empires unscathed. They will have to prove to the Cabinet expenditure committee that what they are doing is justified.

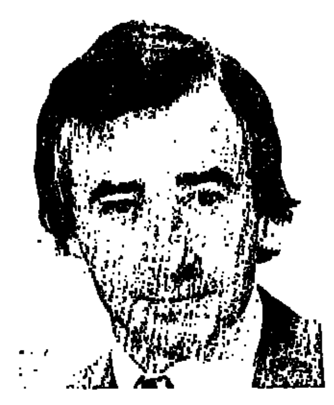
It is, however, unlikely in many cases there will be as high-powered a combination as in the Justice portfolio.

Robertson, veteran of the reorganisation of the defence forces under a series of indifferent (or worse) ministers, is reputed to be one of the best administrators in the state services.

McLay – apart from a tendency to be too quick to justify prime ministerial legal and constitutional inventions and indiscretions – is also developing a reputation for innovation.

Thus, each found in the other a sympathetic response.

The basic approach was to define the objectives of the department and its various divisions – and then to evaluate each activity in terms of how successfully it achieves that objective.



Jim McLay . . . break with tradition.

John Robertson . . . sympathetic response.

This was a first for the department. There were, says planning and development division director Mel Smith, "no clearly defined policy objectives."

Programmes, once started, continued of their own momentum.

"We have tended," Smith says, "to pile things on top of the pile that is already there.

"For instance, crime has continued to increase, so we tack something additional on, instead of going back to square one."

As an example, he says, the department has provided procedures to make justice more humane, efficient and effective – but not checked to see if the procedures were in fact achieving those objectives.

A case in point is periodic detention. Essentially it is intended to reduce reoffending. Research suggests that the reoffending rate is no different for resident periodic detainees (at $3500 a year) and non-resident detainees (at $890). Why then continue with the more expensive system?

Robertson's first move last year was to get each of the 11 divisions in the Justice Department to:

- Define its role, objectives and activities;
- Review and evaluate existing policies and recommend changes in emphasis, organisation and procedures;
- Set out new policy proposals in order of priority;
- Detail the division's manpower, materials and finance resources

This took five months.

Then Robertson and McLay together reviewed all divisional papers, identifying operations that could be accepted without further examination and those needing further study.

This took one day.

Then McLay forsook his Beehive office for departmental quarters. For two and a half days he and Robertson – with the two deputy permanent heads and key staff from Smith's division – examined each division.

A range of divisional staff, including at times district heads from out of Wellington, was brought into the discussion.

Says Robertson: "The whole examination had a marked effect in making officers think more clearly about why particular activities were followed and about possible options which consumed less resources.

"Objectives for each function of the department were defined much more crisply and in a way which allows a better quantitative assessment of results.

"Being able to discuss such matters with the minister was a unique opportunity for most of the divisional officers from head office and districts and very much a first in the department. The positive effect on morale was most marked."

McLay agrees. "They often threw up areas for possible saving themselves."

Smith also notes that initial scepticism, that the exercise was possible in a department dealing with social issues, gave way to a more positive approach.

He thinks there are testing times still to come, some "pain" to be faced as the exercise works into the second phase involving departmental staff "at the workface".

The Public Service Association notes no complaints yet from members, though this may change as the changes work their way down. In principle, it agrees that consultation is good for morale.

Apart from avoiding obstruction, the procedures developed by Robertson and Smith also seem to have avoided the old ploy of bureaucrats faced with spending cuts – putting forward the most politically embarrassing to discourage their ministers from getting too enthusiastic.

McLay says divisional heads were asked to suggest ways they could save 10 per cent. In some cases the answer was to continue their operations at a lower level. In others they looked at ways of cutting out some activities, but "if they thought they were getting into an area where the loss would be substantial, they would not suggest it."

Some of the results of the review:

- A potential saving of $200,000 by increasing staff at prisons and reducing overtime;
- A new policy of charging – a function that was assumed must be continued;
- An inquiry to discover whether the work involved in the largely automatic handling of land valuation applications could be reduced or, if that is not practicable, fully charged for;
- The curtailment or transfer of a string of time-consuming licensing functions from the courts to other bodies – auctioneers, motor vehicle dealers, stock exchange members, lawyers, pawnbrokers (all three of them), newspapers and printers;
- A pilot scheme to see if it is more efficient to file by post court documents relating to probate and insolvency.

Admark

Chinese puzzle

Ken Brady (left) . . . briefs liaison man Lawrence Wong.

CHINA-watchers who have been breathlessly following our reporting of the in-fighting on the Chinese advertising front between the multi-national agencies Ogilvy & Mather and McCann-Erickson will be agog to hear the latest despatch from the firing line.

First, to recap briefly. In November last, Jim Farley, a McCann national executive president from Tokyo, reported while on a visit here that McCann had set up a partnership venture in order to secure a presence in China.

Later in the same month, O & M's international executive director Michael Ball told *Admark* that it was the first international agency to place advertising for Chinese products outside China or Hong Kong.

Last month, McCann stated that it was the first United States-based agency system to be invited to extend its operations into the people's republic.

Furthermore, it had now concluded written agreements with two further Chinese advertising corporations, Peking Advertising Corporation and Guandong Advertising Corporation, to act as their primary international agency system in the United States.

Dobbs-Wiggins McCann-Erickson chairman Fred Dobbs, in making the announcement, anticipated that his company would soon be in a position to provide the marketing services of a New Zealand-based advertising agency officially represented in that market.

Now, via Ken Brady, O & M's New Zealand chairman, comes the announcement that his agency has been appointed the primary advertising agency to act in Australia and New Zealand for both the Peking Advertising Corporation and the Canton-based Guandong Advertising Corporation.

"In New Zealand," Brady said, "we are the only official agency representing the two corporations and we can also offer direct access to promotional opportunities in China for local companies to be represented there."

Ogilvy & Mather has also been appointed the primary agency for the two major Chinese corporations for EEC countries.

Having reported the statements as directed to us, on this subject we will remain completely inscrutable.

Production overload

COSTS were to be contained when TV One and SPTV were merged into TV New Zealand and the head office shifted to Auckland.

New costs are already showing up.

Due to pressure on Auckland's limited facilities by the new regional news programme, the twice weekly current affairs programme Eye Witness will have to be produced at Videom.

Privately owned Videom will get about $4000 a week for the use of its facilities.

Another option considered by TVNZ was to fly the Eye Witness team down to Wellington twice a week to use the production facilities at Avalon. Apart from being expensive this would make the move to Auckland appear ridiculous.

Eye Witness might have used Auckland's Studio 1 at Shortland Street. But this facility is overloaded doing the all-important children's programmes.

At a cost of $4000 a week Eye Witness will reluctantly make its programmes at Videom — reluctantly because while the Videom facility is considered adequate, it is considered barely adequate and no more.

Why are the production facilities in Auckland so overloaded?

Partly because the regional news will take priority over current affairs.

And partly because Kevin Moore, ex-controller of programmes at SPTV, has gone out on his own and will lease the Auckland production facilities and staff to make private enterprise TV programmes.

While publicly funded TV is forced to rent facilities from private enterprise, Kevin Moore's private enterprise TV will be using public funded facilities.

TV sources, both private and public, find the situation highly amusing — and somewhat frustrating.

New boss for Windy

RADIO Windy has a new boss from today.

Rob McKay, previous managing director, who arrived here in August 1978 charged with reviving the flagging fortunes of Wellington's only privately-owned radio station, has resigned. He is now general manager of 4MMM Brisbane, a pioneer FM commercial radio station.

Paul Ramsden, previously Windy's marketing manager, has been appointed station manager.

Ramsden, with extensive experience in radio marketing and programming in Australia, was a colleague of McKay at 2CC, Canberra, before coming here.

"There will be no depar[ture] in policy," Ramsden said.

"We feel we have achie[ved] the number one position i[n] 10 to 44 age group thro[ugh] good planning and [...] management. There is [no] need to change course. O[ur] job is to consolidate the p[osi]tion and the way to do this [is to] keep one step ahead of [the] competition."

Marketing plans have be[en] programmed and will be [in]troduced progressively b[ut] target market will remain [un]changed.

"In a year from [now]," Ramsden said, "it may [be] necessary to review the st[ation] profile but this will depe[nd on] relevant marketing fact[ors at] the time."

Entries in jeopardy

INDUSTRIAL action o[n the] far side of the Tasman [may] preclude New Zealand [ad]vertising agencies from [enter]ing the creative adv[ertising] competition named AW[ARD] — an acronym for the [Advert]isers, the Australian F[ilm] and Art Directors Ass[ociation].

Entries close on [...] the entry forms [have] been mailed to New Z[ealand] agencies have yet [...] received due to mail [...] attributed to labour p[roblems] being experienced in [Aus]tralia.

AWARD was con[ducted] for the first time last ye[ar;] this year entries are also sought from New Zeala[nd.]

Entries are invited in [...] categories: print and p[...] advertising; TV and c[inema] commercials; packaging; [di]rect mail; graphics; ed[itorial] design; illustration and [pho]tography; design for TV [and] cinema.

A selection of the succ[essful] entries is published in [the] *AWARD Annual*, the [...] edition of which carr[ies a] pricetag of $A50.

The organisers pride th[em]selves on the toughness [of] their judging standards [and] have set up seven pane[ls of] seven judges, each recog[nised] as a top creative profess[ional].

Attesting the severity of [the] adjudication standards, in [last] year's competition only [one] gold was awarded out o[f a] possible nine and only [...] entries from the 2500 recei[ved] were selected for the *AWARD Annual* and exhibition.

The New Zealand conta[ct] for the contest, Clare Brown [of] Colenso's Auckland office, said last week that she had [yet] to receive supplementary supplies of printed informa[tion].

Office equipment

Are you spending a dollar to control 99 cents?

by Peter Isaac

MANAGEMENT systems specialist J Roger Jenkins asks a single question of a lot of people these days: Are you spending a dollar to control 99 cents?

Jenkins is a deadly foe of overblown and costly control systems. He believes that often electronic control systems contribute to problems more than they control them.

A firm disciple of the United States management authority, Peter Drucker, Jenkins sees control in terms of the simplest possible method of bringing order to pending chaos.

One of the chief reasons for exaggerated control systems in New Zealand, he believes, is the "misguided belief" that it is necessary to keep tabs on everything, on every single unit moving through a warehouse perhaps.

"The essence of control is to monitor the exceptions," stresses Jenkins. It is the exceptions to the pre-planned programme of events which cause the problems. Thus, it is only these exceptions that need to be controlled.

To control everything, that is going right, as well as those things going wrong, is the main cause of over-complicated control systems, he believes.

In defiance of modern integrated circuitry, Jenkins' boards are models of simplicity. What you see is what you get. The Jenkins boards exist for only one person: to draw attention quickly and visibly to any exceptions to a planned series of events.

The boards represent the basic management system at Brugger Industries, for example. "The boards do not need programming and we have access to the information on them whenever we need it," said Brugger managing director Frank Brugger. "We could not manage the factory without them."

There are similar comprehensive board systems at Glaxo and Hansells.

Roger Jenkins . . . foe to costly control systems

Now Jenkins is taking a further step toward control simplicity. In the past his small company has set up the board systems and provided management follow through at all stages — the kind of handholding service that the computer companies offer.

Now he has launched his Masterchart series. This is a do-it-yourself management system, which the buyer constructs himself.

The Masterchart series is sold through distributors. The customer gets a kit that has something in common with a children's peg-board game, along with a set of instructions.

As with the more sophisticated boards, the Masterchart provides "exception control" on a variety of methods. Among them, order control, project progress, product planning, and inventory in general.

Jenkins claims that he is basically a face-to-face marketer of his own product. "I like to identify the problem, and then sell the solution," he says.

His venture into take-away systems thus represents a new departure from personal selling. As much as anything, he must now enthuse the distributors.

On the face of it, the Masterchart might appear to be a fairly detailed manual system to operate. But Jenkins points out the principle is simple.

"To set up the Masterchart you must simply establish the standards against which you will run your operation: the Masterchart, as monitor, will quickly point up any deviation from the path."

Jenkins has been in the management business for nearly 10 years. A merchant navy officer by profession, he became interested in management soon after he came ashore, and sailed into the executive suite himself.

"It became obvious to me that there was considerable vagueness over the precise role of a manager. I kept asking myself 'I'm a manager — but what should a manager's objectives be?' "

Later Jenkins observed the extreme difficulty so much management was having in ensuring that pre-set paths of action were in fact adhered too. He observed too that many existing control systems were creating as many problems as they solved, especially in regard to finding the right staff to run them.

Resource recovery runs into funds drought

by Rae Mazengarb

LIMITED funds ensured that Trade and Industry's resource recovery grants scheme — announced last December — was of modest, even insignificant proportions.

Next year the department hopes to dish out double the $19,000 worth of grants it gave to the successful applicants this year.

But officials say this is still not enough. In most cases, the grants will be used to advertise the various recovery operations. Of the 27 applications under the scheme for the 1979-80 year, 10 qualified for grants; applicants included local bodies, industry and voluntary organisations.

There is an indication that the Labour Department, too, could become increasingly involved, amalgamating the TLP scheme into a grant-Labour package.

The grants scheme is just another phase in a total resource conservation plan — one that has taken some years to get underway.

With these facilities available, the resource collection aspect becomes more important.

Trade and Industry therefore is attempting to co-ordinate the supply of raw materials with these facilities.

It is also cajoling local authorities to move into tip salvage.

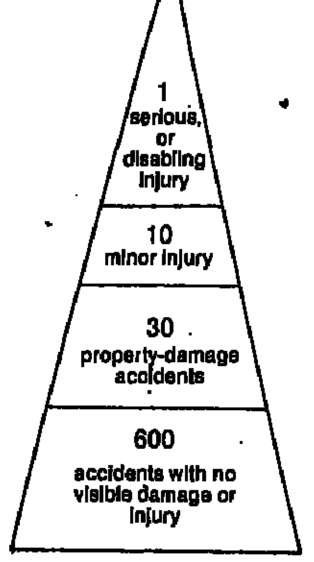
The department boasts a waste materials exchange too.

Accident prevention value vastly undermined

IF we envisage an accident like the crash of a DC 10 on the icy slopes of Mount Erebus, the community, in measuring the cost has only one thought – the tragic loss of 257 lives.

Beside that, the $40 million odd paid out for the insurance of the aircraft, pales with insignificance.

It is, however, a sobering thought that the replacement cost of that aircraft is about a third of the money which will be collected by the Accident Compensation Commission this year. That cost attracts



and continues to attract a lot of attention, for regrettably the tragedies are soon forgotten.

Air New Zealand, in common with all other airlines, goes to great lengths to ensure that disaster does not strike. This tragedy cannot obscure the fact that it has built up a justifiably high reputation in the world of air safety. No matter how well the organisation functions with good design, maintenance systems, safety back-up systems, and fail-safe devices – from time to time disaster continues to strike.

Ian B Campbell, Director of Safety for the Accident Compensation Commission in Wellington, attempts to "dispel the negative approaches to accident compensation and prevention emphasised in the media".

An accident is seldom due to just one factor. Frequently many facets are involved, the coincidental culmination of which may spell disaster or a mere scratch.

Over 40 years ago, Heinrich developed the thesis that for every injury-producing-accident, there were many near-misses. He emphasised that for every near-miss, there was all the potential for serious injury. More recently, Frank Bird developed Heinrich's theory further.

From an investigation into 1,700,000 accidents and near-misses, he postulated his theory which was later modified after further research. His theory is summarised in the Bird triangle.

From evaluations made in the United States of the average cost of the various segments of the total accident scene, it became quite clear that it is in the property-damage segment that the largest element of cost lies.

To obtain any realistic assessment of the total cost of property-damage accidents here would be quite a task. Some limited surveys have been made into this subject.

Harry Benis, in a survey into the economic impact of construction accidents for the Building Research Association (BRANZ), clearly identified the appreciable uninsured or indirect cost element.

In a personal communication, another investigator advised that he was able to identify indirect costs of $841 and $45,000 respectively for two accidents (see panel).

In highlighting these indirect costs, the emphasis is laid on the uninsured nature of such costs.

Accident potential highlights the need for adequate insurance and the community as a whole meets a substantial bill.

For the 1977-78 year, fire and accident insurance premiums amounted to over $112 million and $164 million respectively. Today's figure would be much higher. Many risks are not insured and a considerable number are in*adequately insured.*

Fire not only causes deaths, but also does much damage. Fire, like other accidents, is preventable – a factor that is insufficiently realised.

The conclusion that the cost of accidental damage and injury is astronomic and more intensive preventive efforts are long overdue is not difficult.

Allowing for inflation, the combined total of fire and accident insurance premiums plus Accident Compensation Commission levies will probably reach close to $500 million in 1980. And yet, we know that many costs are not covered by this sum, to say nothing of the loss measured in human values.

In combatting the accident problem, we are too often side-tracked by insufficient information – intuitive thinking, hunches, prejudice, and a host of other factors.

One well known researcher succinctly commented: "We are beset with arm-chair speculators who, at times, reveal great perspicacity of thought, but more often reflect merely the personal prejudices of the thinker."

One of the worst features of the accident scene is the seeking of scape-goats, the tendency to cover-up. Now that the common law claim has gone, this is no longer justified, or necessary. In-depth investigation with the sole objective of establishing the facts and implementing preventive measures, must be our aim.

Cost elements other than compensation, medical and hospital expenses:

1 The cost of accident counter measures
- environmental factors
- personal protection
- safety management organisation
- occupational health
- first aid, etc

2 Loss of production
- time lost by injured person
- time lost by fellow workers
- time lost by management, supervisors, etc.

3 Cost of corrective measures
4 Earnings lost by injured person
5 Cost of government enforcement agencies

There is, a need to seek out accurate and reliable information, but to do that is not sufficient.

We cannot afford to wait until accidents reveal that there is a problem and although the reporting and investigating of near-misses may demonstrate the need for effective action before injury or damage occurs, that is still not enough.

What is also needed is more attention to predictive techniques. These may comprise simple procedures such as regular inspections and use of check-lists, to the most sophisticated approaches, such as critical incident analysis and safety sampling.

The increased momentum of the safety movement since 1951 when the Workers Compensation Board was formed has been substantial.

What is far from clear is the extent of the effectiveness of that effort. Individual instances of considerable success can be cited and from these, all too few cases, it is abundantly clear that the successes were only achieved through a thorough assessment of the problem, careful planning, involvement of the total work-force and management committment.

If, therefore, the conclusion is that accidents are worth preventing, the means are at your disposal. All that is needed is a determination to take up the challenge.

Safety pros: profit motive for prevention

by Glenys Hopkinson

BUSINESSES and industries could improve their profits if they improved their safety measures, says Massey University Business Faculty safety lecturer Doug Hay.

Accidents cost companies thousands of dollars and the 500,000 here each year should be included as part of the overall production cost he said.

Part of the Accident Compensation Commission programme committed to reaching all sectors of the community, is the establishment of a Safety Management Diploma in the Business Studies Faculty at Massey University.

Len Fahy (left) . . . discusses new safety diploma course with Doug Hay.

The commission has funded an initial staff appointment for three years, and will provide an extra $5000 grant for the purchase of literature on safety.

Commission safety director Ian Campbell said the time had come for a more professional approach to accident problems.

Too much accident prevention had stemmed from folklore and intuitive thinking.

"Accidents are big business. They are costing thousands of dollars. And of course, there are the social costs," Campbell said.

The Accident Compensation Commisssion report to Parliament for the year ending March 1978 indicated total compensation and medical costs were $89,181,616, rising in the following year to $98,028,920.

The figures do not include loss of profits, damage to plant and machinery or the first week's wages paid for industrial accidents.

The diploma course is aimed at staff in the commission, the Labour Department, senior officers in industry and others responsible for safety, as well as for post-graduate students in engineering, science, accounting and economics.

Internal or off-campus study will be available, and is open to everyone.

The New Zealand legislation eliminated the concept that compensation paid to a person, depended on fault.

Len Fahy, Accident Compensation Commissioner, said it was only by education and advice that there was any hope of gaining ground.

Hay points to world-wide changes in industrial environment.

"Different chemicals are being used in the industrial environment; different fuels CNG, LNG and LPG, are replacing conventional fuels and nuclear sources are gaining widespread application in manufacturing processes.

"To ensure a safe environment safety managers must be conversant with these changes and the possible effects likely to be encountered should an incident occur."

Hay said New Zealand had attracted world-wide attention because of its Accident Compensation Act of 1972.

Food oil processors join forces for showdown

A PARAGUAYAN, who convinced the directors of the Kaipara Dairy Company at Helensville in 1977 that they should build a vegetable oil refinery, has run into strong opposition in Australia where he has set up a similar business.

Shrian Oskar is a director and holds about 40 per cent of the share capital of Kaipara's associate company, Kaipara Edible Oils Refinery Ltd which operates a $4.5 million vegetable oil refinery at Helensville.

He also has 10 per cent of a milk recombining plant he arranged to be set up in Dubai, along with Kaipara Dairy which also holds 10 per cent.

A major showdown is looming between the combined forces of the Australian margarine and vegetable oil processors and Oskar's interests, which threaten to disrupt Australia's super-lean and highly competitive markets.

Oskar has set up a vegetable oil refinery at Bunbury, West Australia, to tackle the local market and gain a foothold into Australia. He is using local ownership and state government backing.

Oskar has also approached the South Australian and Tasmanian Governments for financial help in setting up refineries in their states.

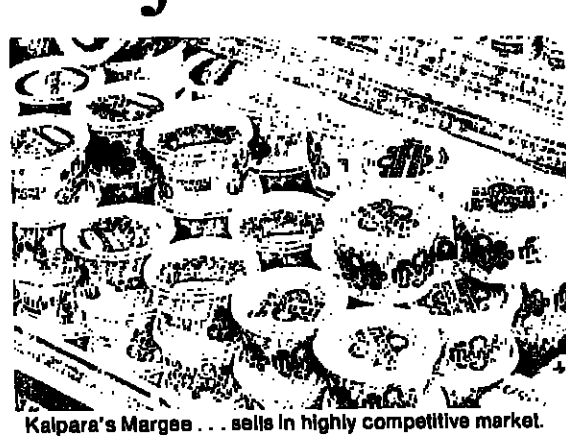
The Australian industry consists largely of Allied Mills, Provincial Traders and Unilever.

Marrickville Holdings couldn't stand the bruising pace of the market and has sold its share to Allied Mills and Unilever.

The Australian industry claims Oskar is an opportunist with no background or history in the business. The Australians claim he cannot succeed without being propped up by the state governments which support him.

Opinion within the industry is that Oskar is a maverick operator who has gone to Australia with the object of getting state government assistance in setting up his projects.

They say 15 per cent plant commissions and a commission on crude vegetable oil purchases, guarantee him a return from such projects.



Kaipara's Margee . . . sells in highly competitive market.

The industry believes Oskar has deliberately chosen marginal areas in which to set up refineries to entice state participation.

He presents attractive package deals supported by his own feasibility studies, which offer local employment and tempting export opportunities.

But the industry has closed ranks against Oskar, and vows to meet his prices as a means of combating what they claim is unfair competition.

The Australians say Oskar presents unfair competition because inevitably, his ventures will sink, and in bailing them out, the state governments which have participated, will levy out-of-state product with protective tariffs or taxes.

The Australian Margarine Manufacturers' Association has vowed to meet Oskar's prices "on a permanent basis if necessary" and members do not think Oskar's Bunbury plant will survive longer than two years.

The association and its members are reluctant to discuss the threat Oskar poses. But one member commented: "He needs at least 25 per cent of the market to survive and he won't get it in that time".

Bunbury will be saddled with high freight costs, and is poorly sited to cash in on exporting, according to industry observers.

"Unless he has a big export market, I just can't see how he will survive," says Ken Eyles, association chief executive.

Eyles says he doubts that Oskar can even sell economically at current prices.

"He's taking on an industry with no fat at all," says Eyles.

Oskar will also be pitching himself against national advertisers when he takes a crack at the consumer market, which will add to his costs.

"It will be an uphill battle all the way and we'll probably end up buying his plant off the West Australian Government at fire sale rates," said one observer.

In West Australia, Oskar's Bunbury Foods is taking on local oilseed crusher Refinoil Pty Ltd of Jandakot which produces 6000 tonnes of refined vegetable oil a year and has the bottled table oil market under control.

Oskar has not yet begun manufacturing margarine, the most profitable oil produce. But when he does, he will have to compete with 10 existing brands in a 7000-tonne-a-year market.

And the absence of a tallow fractionator at Bunbury means Oskar will be hard pressed to compete in the industrial shortenings market.

Oskar claims he doesn't fear competition, and intends making a bid through his state government-supported refineries, for a major share of the Australian vegetable oil and margarine markets.

He says his plants are modern and efficient, and therefore more viable than the obsolete plant he claims the big three operate.

Oskar says the trouble with Australian refiners is they have more chiefs than Indians.

Operations will make money and be run by a tight management, he said.

Detroit car makers mount counter-offensive

THE inroads Japense automobiles makers are making in the American market are painful, but may be of short duration, according to United States Deputy Transportation Secretary William J Beckham jnr.

"Detroit is mounting a major counter-offensive," Beckham told the world car *symposium in Toledo, Ohio.*

"Ford, with its Escort series, General Motors with their "J" cars, and Chrysler with its line of "K" cars – all small, lean, and designed to compete directly with the most popular Japanese models – are consistent with a recent study by the Arthur D Little Company which predicts that the import share of the United States market will fall to about 10 per cent by 1990."

Beckham said the "new energy reality" has generated a heavy demand for fuel-efficient cars – a demand that, in the United States, was being met to a large extent by foreign car producers.

"The result has been substantial and unsettling dislocation of one of our basic industries in the United States," he said.

Books

Academic demographers expand indicators of change

by Gordon McLauchlan

A BOOK published this month could well be read with profit during lunchtimes in the management suite – inside the dustjacket of a Wilbur Smith thriller, if you don't want to be tagged the company swot.

The Population of New Zealand is a textbook and suffers from some of the disadvantages of its genre.

Written by academics for academics, the style is convoluted in places, and the meaning sometimes disappears up its own sentence structure. Intrusive reference notes and (to me) obscure charts will impede the general reader.

But almost all the writers resist that swoon of academic coyness at the bold unqualified statement. They do not hedge their bets when drawing conclusions from their material.

Many of the conclusions will have high relevance to those people planning and controlling employment policies and industrial relations over the 1980s.

Aspects of demographics became recurring news stories during the 1970s. Among them:

- Excessive immigration during the early part of the decade, at least as the present government saw it;
- Excessive emigration later, with a high proportion of the young and the skilled;
- The northward and urban drifts and consequent demands for regional development policies;
- The failure of population planning calculations, with graphlines ceasing, suddenly irrelevent, their projections left up in the air.

This book has a look at the causes and effects of the swift changes of habitat and lifestyle here during the past decade. It attempts to put the present in perspective, and points ahead towards the areas in which study is specially needed in the future.

Perhaps I should let the book speak, in brief excerpts for itself:

"Women comprise perhaps the most ill-used and certainly the most under-utilised sector of the population's talent."

"The emergence of the childless family and the two-career woman has been made possible by the much higher level of confidence with which a woman can regard the control of her reproductive function."

"If it were possible to point to a single factor said to have revolutionised the role of women in society, and – from that – the very foundations of our social system, many would suggest it is the revolution in contraceptive and post-contraceptive technology."

"Changes are urgently needed in all aspects of migration procedures that depend on the discretion of the Minister of Immigration. Ministerial discretion in the granting of entry permits and in deportation matters is the cause of much ill will and bitterness both inside and outside the country. It is essential that the selection criteria for immigration are clearly stated . . ."

"In future, immigration policy developments will have to give closer consideration to conditions in Australian than has been done in the past."

"(Internal) migrants . . . form a distinct subset of the national population. Those most likely to migrate tend to comprise a core of chronic movers – among the better educated, and in white-collar jobs."

"In New Zealand in 1971, more than 36.1 per cent of all private households were some form of alternative to the nuclear family and by 1976 this proportion had risen to more than four out of 10."

"We have enough evidence to state clearly that The New Zealand family does not exist. We already have a wide diversity of families and households. This diversity is increasing."

"Fewer people have children and those having children are having fewer of them. Voluntary childlessness has emerged as a real option for younger couples . . ."

"There may be a case for some sort of discouragement on those whose human capital is partly the consequence of large social expenditures. An obvious example is that of the medical graduate. A possible procedure might be to treat university costs as an interest free suspensory loan which need not be repaid if a doctor carried out 10 years' service here."

"Firstly, we need to know more about the reasons for emigration, and particularly whether there are New Zealanders overseas who would like to return but cannot for reasons with which we can deal."

"Secondly, while Pacific Islands' intentions remain unclear, it is likely that we will have to take a larger share of the South Pacific Polynesian population."

"This could be seen as a great problem, but it is better regarded as a challenge which needs to be tackled positively in consultation and concern with the Pacific Island communities. Given that the proportions of their populations involved may be substantial and their migrants may be low in human capital (but not in human worth) it is likely to be both in their interests and in ours that the migration be orderly and [illegible]"

"The chronic gap between social reality in matters of fertility control (contraception and abortion) has been maintained by the practice of 'de-politicising' these issues so that changes have not been able to be brought about by voters choosing between alternative policies advanced by political parties."

"In the medium term – that is about 20 years – the population in the main working age groups (15-59) will increase by more than .5 million persons. The provision of employment opportunities for this rapidly expanding group will be a major policy challenge."

"No amount of [illegible] thinking is going to [illegible] fact that the number of people aged 60-plus will grow from 400,000 in 19[illegible] to 880,000 in 2031. Their share of the total population will rise to between 22 per cent and [illegible] per cent."

These are bald excerpts [illegible] the information and the discussion surrounding them [illegible] is of value to planners in both the public and private sectors.

The Population of New Zealand is a big book and a hard read, but as the [illegible] major study of population here it will carry a wallop in both the academic and business world.

It is published by Longman Paul, and the 13 chapters by [illegible] contributors are edited by R. Warwick Neville and C. James O'Neill.

Vanity publishing: costly way into print

NEW Zealand is reputedly one of the easiest countries in the world in which to get published in book form, but some authors still have to resort to vanity publication, or private publication by themselves.

Vanity publishing, big business overseas, is when someone else produces and distributes the book and the author pays.

Private publishing is when the author does it all themselves.

Either way, it's a costly way to see a work in print, and without the distribution system of a big publishing house the chances of success are remote.

Of Ivory Accents was written by Steven Eldred-Grigg a few years ago and published by a vanity publishing company in New York. It is a work of remarkable quality and has never been given the credit it deserves. Not in New Zealand anyway.

More recently, Wayne Innes brought out his *Don't Pay Taxes*, an imaginative look at the economics of modern urban living which has had some impact in Auckland.

So, I approached the two latest to come my way with an open mind. One is *The Uncarved Block and the Philosophers Stone* by Rod Cameron, and the other, *The Possibilities of Man* by Mark D Sadler.

All I can say is that no publisher has missed anything if they didn't get a look at the manuscripts. Sadler writes quite straightforward sentences but has nothing new to say and is self-conscious and long-winded in the saying.

Cameron's style and message are convoluted and confused.

Hunt's collected colour

PENGUIN is talking to poet, showman and all-round colourful character Sam Hunt about the possible publication of his collected work.

If it comes off – and Penguin is reportedly keen – it will be the first collection of verse by a single New Zealand poet to appear over the famous imprint – which will also ensure its availability for international distribution.

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MICROFILE NEWS

A DIVISION OF CHALLENGE CORPORATION LTD.

Microfile Wellington P.O. Box 3249 (Ph 851-388); Auckland P.O. Box 4185 (Ph 774-495)

World COM expert visits New Zealand

DAVID Hauser, International Sales Manager for Datagraphix, the world's largest COM Company, visited New Zealand last week to meet representatives of Microfile – one of the country's largest micrographics companies.

Microfile recently became sole New Zealand distributors for all Datagraphix equipment.

The massive American company – a subsidiary of the $4 billion General Dynamics Corporation, was first to introduce COM (Computer Output onto Microfilm) into the world market almost 20 years ago. Microfile's new association with Datagraphix makes it the only wholly-New Zealand owned company to represent a complete range of COM equipment.

While in New Zealand David Hauser met with Challenge Corporation Chairman Ron Trotter (Microfile is a division of Challenge Corporation).

Said David: "To be viable the COM industry has got to be in the forefront of application development, systems-enhancement and systems simplicity – to make the role of data dissemination easier for any company.

"Microfile is now in an excellent position to offer total COM services, data processing services, and to sell COM equipment.

"The potential user in New Zealand now has the assurance of a very high level of service and quality."

Before leaving for Australia David Hauser spoke to a Microfile news reporter about COM – its advantages, its developments, and its application in industry today.

That story is on page two inside..

Datagraphix International Sales Manager, David Hauser (left) meets Challenge Chairman Ron Trotter. "The potential user in New Zealand now has the assurance of a very high level of service and quality."

INSIDE

- P.2. – Exclusive Interview – Datagraphix International Sales Manager David Hauser talks about COM, Datagraphix, Microfile and their advantages to New Zealand.
- P.2. – Getting the most out of COM.
- FREE Microfile offer – put us to the test!
- P.4. – Microfile Sales Manager, Ralph Haydock, on Microfile 'The Company', the service and the advantages to you the end user.

Three 'fiche' replace 6 inch thick book

National Electric's Supply Manager, Bruce Caldwell, checks a customers purchase price on a tiny 'fiche' magnified to full page size on a Microfile micron reader.

UNTIL National Electric converted their paper system to Microfilm a year ago, they had to print – and distribute – updates to a 6 inch thick price book to 25 branches every week.

Today the entire 25,000 item price book fits on three postcard-sized microfiche which can easily be sent anywhere in New Zealand inside a standard 14 cent envelope.

As New Zealand's largest electrical wholesaler with outlets from Whangarei to Invercargill, the National Electrical and Engineering Company typified the classic data storage/distribution problem. Every month the company sent out its 35,000 invoices; amended its thousand-page price book four times and had to cope with mounting printing and distribution costs.

Said National Electric's Supply Manager, Bruce Caldwell: "Managing the old price book was a mammoth task. Since changing over to the Microfile system we've literally reduced weeks to hours in terms of workload and turnaround of information."

All National Electric branches now employ two microfiche 'readers' for enlarging and viewing the tiny data-packed 'fiche' sent to them from Head Office every week.

Because National Electric was already "on-line" before converting its cumbersome price book to 'fiche', the company now boasts a complete COM (Computer Output onto Microfilm) system, which includes not only the price book but also the company master file of all customer invoices and monthlys tatements.

The change to 'Microfile' has proven so successful in fact, that many of National Electric's larger customers now employ micron readers themselves and receive their own copies of National Electric's 'tiny' price book.

Advertisement

"COM is not being sold just as a cost saving. It's also a systems tool and another alternative to paper."

David Hauser, Sales Manager International Distributors, Datagraphix

IN this exclusive article with David Hauser, one of Datagraphix' top men, Microfile News covers the development of COM, the role of Datagraphix as the world's top COM company; (including its newly-formed relationship with Microfile) and the resulting advantages to New Zealand.

Microfile News:
First of all what is Datagraphix?

D.H.:
Datagraphix is the smallest of the wholly-owned subsidiaries of General Dynamics – a $4 billion American company. Datagraphix is part of the communications arm of General Dynamics, and deals exclusively with COM (Computer Output onto Microfilm).

Microfile News:
Did Datagraphix "invent" COM?

D.H.:
The origin of COM was a development of General Dynamics. The beginnings of microfiche and COM came from Datagraphix with the invention of the charactron tube in the late 1950's. A fellow called Joseph McNainy thought it might be a good idea to let an electronic beam from a cathode ray tube pass through a stencil placed in the centre of the tube and displaying a complete character extruded onto the tube's face. This was the beginning of the COM business. The developments that came from that led to the position Datagraphix has in the world market today.

Microfile News:
How is Microfile associated with Datagraphix?

D.H.:
Microfile is now a distributor for Datagraphix. Datagraphix now has 33 distributors throughout the world – each independent and totally responsible for the representation – that is the marketing, support, software and the engineering – of Datagraphix equipment exclusive to their country.

Microfile News:
What makes a good COM company?

D.H.:
An understanding of data processing systems is probably the key factor. The second key factor is an involvement in COM in a service bureau environment. These two factors together will make a good COM company. The company that is a service bureau for COM – that has no data processing systems per se – will succeed but not very well. It's the combination of data processing systems knowledge and the utilisation fo COM in a service environment that are the hallmarks of success.

Microfile News:
Does Microfile meet these requirements?

D.H.:
Obviously.

Microfile News:
Is COM simply a cost saving devise?

The basic philosophy of Micrographics and COM today is to get more information to more people in a more usable format so that better decisions can be made at all levels. You can justify COM very easily from a cost saving point of view, but COM is not being sold that way anymore. Sure, it's being sold understanding the savings are there in terms of raw paper costs – but it's also being sold today as a systems tool and another alternative.

Microfile News:
Can just any company become a distributor for Datagraphix?

D.H.:
Datagraphix is approached daily by organisations that want to represent us. There are, however, certain requirements that these companies must meet. They must, first of all, have experience in the computer business from a maintenance and systems standpoint. They must also establish themselves as a COM service bureau to understand what it is they are selling. Datagraphix does not work with agents. Only with distributors who are exclusive to their own country.

Microfile News:
What is Datagraphix' position in the world market?

D.H.:
Datagraphix has supplied total equipment for over 40% of all COM systems currently installed throughout the world. We are the leaders in the industry in terms of these numbers. We have installed more systems in the last three years than all our competitors put together. We're extremely proud of our position in the market and therefore ever more dedicated to the development and future of COM.

Advertisement

Getting the most out of COM

by American Micrographics expert Robert Glotfelty

MOST people do not fully understand COM's potential. Over the past decade, COM has slowly grown from newborn obscurity into a healthy and growing industry, and COM's full potential is as yet unrealized.

This gradual growth has tended to disguise COM's current size. Approximately 275 million original microfiche are produced annually.

The cost of film stock and chemicals to produce these fiche is approximatley 55 million dollars. An estimated 2 billion, 750 million duplicate microfiche are also produced with a film cost of 100 millиond ollars. These two figures, and that is just for film and chemicals, represent a total of 155 million dollars. A cost reduction of just 10 percent would be 15.5 million dollars, or a savings of $3500 for every COM system in the world. This gives some idea of the importance of a well-run operation.

No two COM operations are alike. All, however, share some basic characteristics. All COM operations have hardware, people to run the hardware, supplies to produce the products and an operating procedure called the "Operating System."

This operating system, what it is, how it is set up and how it functions is the topic of this article.

Whether an operation is large or small, a service bureau or in-house unit, the basic requirements of the operating system are the same.

1. The job is received;
2. It is set up to be run;
3. Necessary supplies are drawn;
4. The job is produced – recorded, processed, duplicated and finished;
5. The job is delivered.

The operating system governs all of these functions.

The system at one major American computer company is a good example of a successful operating system. The company is a large service company specializing in computer serivces, medicaid claims processing and micrographic services.

A medium-size COM operation it operates five COM recorders – three with mini computers and two without, three with in-line processors and two without. There are three fiche duplicators and one roll film duplicator. There is a full reversal processor for COM and a negative processor for source documents.

The staff consists of seventeen operators, three managers, two special assistants and an administrative assistant.

The technical support manager is responsible for programming, operator training and documentation. The operations supervisor is in charge of the 24-hour a day, 7-day a week operation. He is responsible for maintenance, scheduling, customer problems and all operations personnel. The administrative assistant handles all administrative duties such as secretarial tasks, billing, purchase orders, shipping and customer order processing. The operations manager is responsible for the control, planning and management of the operations portion of the division.

Each of the three main shifts has a shift leader who is responsible for all jobs, personnel and functions on that shift. He is an operator who also has supervisory responsibility. This management structure provides flexibility and easy communications, without requiring excessive managers and supervisors.

Documentation and commentating procedures are the heat of any operating system. The 24-hour operation of the division is governed by a procedures manual. This book explains all procedures and is designed to anticipate most questions and problems an operator may encounter.

Scheduling is the central mechanism of the system. Jobs must be scheduled and co-ordinated to balance work flow, personnel and hardware. A master scheduling board is used to indicate recurring jobs – which are a majority of the workload. This schedule tells the operation when a job is to be picked up and when it is to be returned.

The large workload and the critical turnaround schedules require the maintenance of three courier vehicles. The shift leaders are responsible for co-ordinating jobs and couriers.

Job documentation is a critical part of the system. This tracking system has many components. It helps get a job through the shop and billed correctly and provides an audit trail.

The first step of the procedure is the "run book". Every job, and there are hundreds, has a page in the run book that tells the operator everything he or she needs to know to produce the job.

The second step of the procedure is the job log. All jobs are logged-in as they are received. They are assigned a unique job number and logged by customer, job, date and time in and date and time out.

The third step is the very important job sheet. This document is a two-part form that follows the job through the shop. It tells operators exactly how the job is handled. This form lists all of the necessary information in the run book, plus all of the tape numbers, frame counts, copy counts and problems encountered. When the job is completed, one copy goes to the customer to explain what has been done, the other copy goes to the billing department.

On each COM recorder, a run log lists all jobs run on that recorder. These logs are used to obtain a loading distribution for the recorders, to trace problems and as a backup record if a job sheet is lost.

Shift logs are completed by the shift leaders to communicate with the other shifts and with the operations supervisor. They record job or hardware problems, customer and vehicle problems, job status and other significant information.

These documentation procedures are critical. They define the steps operators must follow to guarantee correct and timely production, and they provide management with information necessary to keep the operation running and to plan for the future.

The COM recorder are carefully maintained and exposure levels are carefully monitored. Because these machines need never be changed, the key with this piece of hardware is to keep it clean and properly serviced.

Each processor is checked daily. Process control strips, produced with a sensitometer, are used to check the off-line processors. The in-line processors are checked using a system developed many years ago of using the forms flash to process control strips. These are processed, read on the densitometer and logged. Any deviations are corrected immediately. Wherever possible, variables are eliminated, and those that cannot be eliminated are monitored, which assures the highest possible quality under high production volumes. Only one type of diazo and only one colour stripe are used, which elimimates some variables. All of the chemicals are mixed by the special assistant and each batch is checked before use. The operators monitor the originals for proper forms alignment, check visual density, monitor the copies for quality and check the finishing. The serious part of the quality control is left to the special assistant.

Another important part of the operating system is inventory control. Maintaining as adequate level of inventory, tracking the inventory as it is used and monitoring the costs of doing business are critical aspects of maintaining the efficiency and profit. Major items are purchased on a yearly contract and delivered monthly. This process insures a continuing supply and reduces costs. Inventory usage is monitored through a "pull card" system. Every time an item is removed from the stockroom, its inventory card is processed. Weekly, an inventory usage report is produced by the computer which shows what needs to be reordered. This system computes usages and all costs.

Job sheets also are checked for accuracy and logged onto the computer. Daily, weekly and monthly production reports are generated in this manner. Invoices are produced for each customer at the end of the month.

Monthly management reports containing all available figures – production volumes, inventory usage and costs and revenues – are generated.

The Company's operating system permits it to produce, quickly and efficiently, a large volume of high quality micromedia, at the lowest possible cost.

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SUPPLY Microfile with your computer tapes and the information required below, and they will run it through their COM and provide you with masters and duplicates of the output at no cost.

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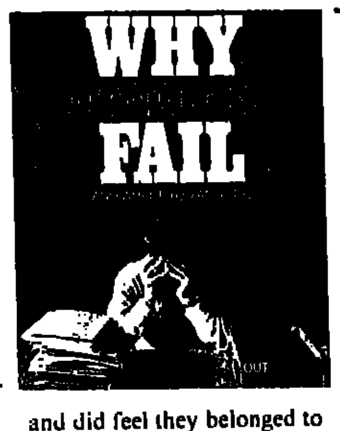
To complete this absolutely free test, we will require details of the record length and block length: Hex dump and the corresponding print-out of the first three or four pages; a list dump or actual print-out and an indication of what is required in the index and eyeball title area; and also any special channel ships; the main frame being used; the required reduction ratio; track and density of tape and parity.

Management

Qualities of age undermined by managers



THIS week we run the second and final extract from a new management book *Why Managers Fail . . . And What To Do About It.* Author John J McCarthy, writing from 50 years experience in the diverse fields of manufacturing, personnel management and industrial engineering, makes the first serious attempt to pinpoint the weak links in managerial approaches by looking at mistakes other managers have made. This week's extract comes from "How some managers see their people".

AS the decades roll by, the emphasis pendulum swings from accent on age to accent on youth, to accent on age, ad infinitum and ad nauseum. Society seems to expect that youth represents change and advancement, while age speaks for reaction and conservatism.

As a result of such stereotyping, many managers in their search for talent, overlook the great value of experience represented by the older men and women whom they supervise. Their belief is that older people are devoid of fresh ideas and lack energy. This is in spite of the thousands of examples that can be cited to demonstrate the fallacy of such thinking.

Psychologists at Columbia University in America, not too many years ago, studied the effect of age on learning, and found that most people learn most rapidly at the age of 23. On hearing this, we nod assent, and then tend to embrace the all too popular belief, that after 23 the attenuation is great. Over-stated, senility must begin to take effect at the age of 24.

Actually, the study found that though there was attenuation over the years, men and women of 65 still learned rapidly . . . almost as rapidly as they had in earlier years.

Older people, upon hearing this, will say: "I like to hear what you are saying; but, it isn't true! I just don't believe it. I know that I do *not* learn as rapidly as I used to learn. If, for example, I am in a training conference with younger people and we are given a case to read, I find myself reading that same paragraph over and over and they finish far ahead of me. The study produced findings that cannot be supported by fact."

These people are correct in one respect – the study is wrong. More recent studies show that there is no attenuation and that people of 65 can learn as rapidly as their juniors. Granted that they do not learn as rapidly, the point is, they can. Then, you ask, why don't they?

To obtain the answer to that question consider the language of management. For instance, a manager contemplates taking a certain action. One of his people asks him, "Have you asked Conrad's opinion – you know he has been around a long time, has had much experience and has lived through such situations as we are facing now?"

The manager often replies, "No, I haven't – there's no point in it. He either lives in the past or he has only one idea in mind . . . six more years to retirement and that boat he has on the lake."

The manager is partly correct. Why should "old" Conrad think about anything else? Nobody ever asks him to. He is denied the right to participate and feels he has been robbed of his need to "belong." He looks at the organisation chart and finds that he has been positioned on a dead-end street. There is no growth factor in his position description. He feels he has been robbed of the need for recognition.

"Older" employees often do live in the past. Given half a chance in a conference you will find them reminiscing about the past and dwelling upon old associates, to the annoyance of everyone else in the room.

Why do they do this? Because they recall the days when they were recognised and did feel they belonged to the group? They recall the people who gave them such recognition and emotional security. Give them recognition today and they will no longer turn the clock back . . . it is just that simple.

Do not expect an over-night change. They will continue to reminisce until they realise that at long last their knowledge and skills are being recognised, then, and only then, will their attitudes change.

In one firm, 2000 people were employed in what are commonly thought of as "exempt jobs" in marketing activities. When a new manager was needed in one unit, a card was fed into a computer. The card described the job requirements. Then 2000 cards, describing the experimental background and personal data (age, education and the like) of each person, were fed through the computer.

The 10 best cards, identifying the 10 most appropriate candidates' would be selected and examined at corporate level, and of these, the five that most closely approximated position requirements would be sent to the department head who had requested the names of acceptable candidates.

On one occasion the individual who handled this function, turned to an associate and said: "I don't like any of the cards the computer produced. Look. Here are the requirements of the position we must fill, do you know of any possible candidates in the company, you travel around very often?" The answer was: "Certainly, how about John Blank . . . have you considered him?" The answer was speedily forthcoming, "No, don't you realise he is 55 years old?"

The individual who made this statement was 60 years old. Of course he felt that he was different – an exception to the rule that older men and women should not be considered because they lacked drive and fresh outlooks.

He also forgot that the 55-year-old candidate still had 10 years left before retirement and would be delighted to take this assignment (and promotion) as a "terminal assignment" whereas a younger person would be happy and content on this job for only a limited period of time and once again the problem of replacement would present itself? Is it any wonder that "older people" fall off in productivity and even interest?

Just what do you think your attitude and your productivity are going to be when you find that management now regards you as "being over the hill".

All too often the result is that these people seek and obtain early retirement. When this occurs, people will remark: "That's good; it creates new opportunities for people coming up through the ranks."

Create opportunity it does – and it also creates a great loss that is seldom recognised or appreciated. It deprives the organisation of a reservoir of experience and knowledge, that more enlightened management could have saved and utilised.

To combat this brand of stupidity, we have only encountered appeals to emotion, such as, "We have no right to turn people out to pasture . . . it's morally wrong" and so forth. Such appeals will never change the attitude of managers who honestly feel that older people just don't produce.

What is needed are appeals to reason, not to selfishness. We shouldn't turn older people "out to pasture" simply because they are endowed with experience and knowledge that it will take their replacements years to obtain.

We don't capriciously throw out an old machine simply because a new model comes along that will turn out greater production.

First, we seek to determine if there is anything we can do to change the old model so that it will turn out the same amount of production. We are well aware of replacement costs, training costs for the operator of the new machine and similar factors. In dealing with people, we seem to lack an ability to be rational – to use reason – and we substitute expensive emotions based on stereotypes that produce expensive decisions!

There is no substitute for experience, but its value will be lost to managers unless they encourage, stimulate and reward experienced veterans as they do younger people. Productivity will suffer unless the older employee feels that his or her efforts will be rewarded.

Let's look back at the Columbia study to see this situation with greater perspective.

Consider this situation. You make a speech in your home town and in the audience is a person who is 23 years old. When you conclude, what is his or her reaction? It may be: "All the speaker said sounded logical, but I wonder if he is right?"

On the way home, this individual stops at the library to read a book on the subject you have discussed. Why? Because he wants to see what other authorities have to say on the subject. Why does he or she find this necessary?

Because they have little or nothing to measure the validity of your views against. If they are 23, they have had seven years of primary school, four to six more of high school, and perhaps three more at university. If fortunate, they may have had a year or two of post-graduate work tucked in. If they have accomplished all that, they have probably been working on the job for six months.

On the other hand, the older person in your audience, listens to what you have to say, measuring it against past experiences. Insights are created which the psychologists epitomise by the expression: "Aha, I see." And the older person adds; "And now I see why something happened in the past and I have a new principle to add to my ever growing storehouse of principles!"

Yes, the younger person may read more quickly but is what he or she reads really meaningful? Because they lack experience they may accept lock, stock and barrel, what has been said if the speaker or author is convincing.

The older, experienced, individual will measure what he reads or hears against experiences – successes and failures – he or she has enjoyed or suffered . . . and really learn. They will also question doctrines or policies which they have seen fail in the past.

The charge is often made, "But older people resist change!" They do not resist change, but they do insist upon scrutinising any proposed change and measuring it against their past experiences. Younger people, having less past experience against which proposals can be measured are more willing to accept change with less scrutiny.

Many organisations currently boast about their young staffs. Recently an executive was heard to boast that his boss, a general manager, was 35 years old, and there wasn't a person in the management organisation over 35. As a customer or an investor we would find the situation to be somewhat frightening. Such an arrangement works effectively just so long as business is good.

The new outlook of the key exective can be refreshing and produce results. What may happen at the first signs of adversity? Who is there in the organisation who is available to advise on what measures were tried during the past similar period, which were successful and which failed?

Where is the leavening effect of experience that may be needed during such periods? The same question may be asked of government managers.

A man once said, "we have men here who, when they die, will have, as their epitaphs, 'Died at 30, buried at 70'!" There are old "young men" and young "old men."

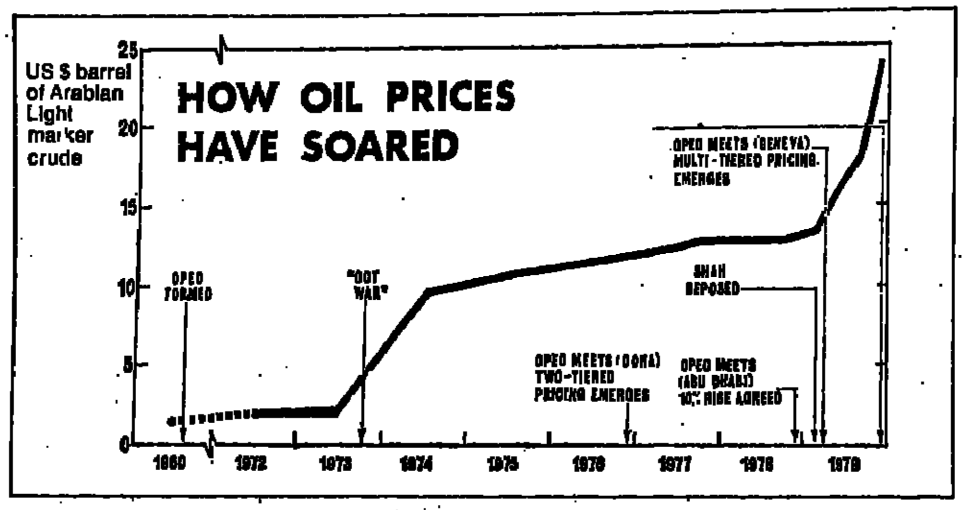
The professional manager will learn to see each of them as unique individuals and will not fall into the trap of stereotyping people by age. If he continues to be guided by such stereotypes, he will lose some of his most experienced men and women to competition.

If they remain with the manager, their productivity will represent a real problem because they will not be motivated.

Youth and energy are far from being synonymous and, conversely, age and wisdom and experience are not necessarily synonymous.

Look upon each of your people as individuals.

Oil industry



Tax-free windfall blows into consortium coffers

by John Draper

SHELL-BP-Todd are escaping tax-free with a $200 million windfall from sales of Kapuni condensate.

The consortium is paid world prices for the oil, based on the price of Saudi light crude plus a margin for freight to Marsden Point.

Since the condensate started flowing in 1973, the price of Saudi light has risen from $2.50 a barrel to more than $24, with another $2 a barrel added for notional freight from the Middle East.

Last year the "official Opec price" soared by 33 per cent, from $18 a barrel to $24, and the spot price even higher in the wake of the Shah's overthrow in Iran.

Britain, Australia and the United States have imposed special windfall taxes on international oil moguls who have been reaping effortlessly big profits as the price climbed.

Australians directly benefited from the windfall: Malcolm Fraser's Government handed out $440m taken by the crude oil levy in tax cuts in the Budget earlier this month. And as an added bonus, Australians pay less for their petrol than New Zealanders do.

In Britain, Chancellor Sir Geoffrey Howe is expected to attempt to scoop up the excess profits from North Sea oil in his Budget on March 26 to reduce the Government's public sector borrowing requirement without discouraging business investment.

Most of the windfall gains will finally come into the accounts of five of the seven sisters in the United States, where the administration expects to collect $227 billion of the $1 trillion over windfall revenues that the companies are expected to make in the next 10 years.

	Kapuni condensate (thousand ...)
1973	[illegible]
1974	[illegible]
1975	[illegible]
1976	[illegible]
1977	[illegible]
1978	[illegible]
1979	[illegible]
Total	[illegible]

Even so, the American-based sisters will keep about $221 billion from the windfall after paying out taxes to the Governments, commissions and royalties.

American taxpayers have already gained. Inheritance taxes have been cut and a billion taxbreak devised to encourage small savers.

As yet, New Zealand is not getting any share of the windfall gain, which for Kapuni already amounts to more than $200 million of the $250 million in revenue the consortium has been paid.

The Government, when the Maui contract was negotiated, allowed the Shell-BP-Todd consortium to write off the profits from the Kapuni field against the costs of developing the bigger and more expensive offshore find.

Gas prices have not climbed to the same extent. The price is based on a "New Zealand index".

But it is understood the Government has been negotiating with Shell-BP and Petrocorp ... viewing to build a stand-alone methanol plant on which the windfall gain from rising gas prices will be taxed.

Law

Company law: five years late and uncontentious

by Jack Hodder

COMPANY law provides the constitutional rules for the private sector of the modern corporate state. It is an area of fundamental importance and some complexity, but is prone to benign neglect.

The traditional pattern for company law reform is for a British committee to review the subject, then produce a report which forms the basis of a new British Companies Act on which is based in turn a new New Zealand Act. These exercises were repeated about every 20 years or so.

But our present Companies Act 1955 is still based largely on the Cohen Committee's report of 1945 — that is, on 35-year old recommendations.

The old pattern has stalled. It started off normally with the 1962 report of the Jenkins Committee, but the British legislation of 1967 was half-hearted.

In 1968 the Macarthur Committee was instructed to review the New Zealand legislation. Its 1971 and 1973 reports recommended that our law be brought into line with developments in Australian jurisdictions.

That report failed to provoke a major overhaul of the 1955 Act, but it signalled the weakening of the British connection.

Such weakening has been progressing as Britain awkwardly but inexorably moves towards harmonising its commercial laws with those of its EEC partners.

The current approach to New Zealand company law reform involves step-by-step reviews of self-contained parts of the 1955 Act. Thus we have seen the Securities Transfer Act 1977, the Securities Act 1978 (which established the Securities Commission with an independent brief on company law reform) and the introduction last year for recess study of the Companies Amendment Bill.

The 50-clause Bill is primarily concerned with beefing up the statutory protection accorded shareholders and creditors. Most of its provisions were recommended in the Macarthur Committee's report of March 1973. If enacted, they will take effect on January 1 1981.

Minority protection:

Companies are designed to operate on the basis of majority rule. That can mean an uncomfortable life for minority shareholders, particularly if shares cannot easily be traded.

The "locked in" shareholder's lot is not helped by the rule that proceedings in respect of wrongs done to the company can normally only be commenced by the company itself (through its governing bodies) and not by individual shareholders.

The Companies Amendment Bill would make life much better for the unhappy minority shareholder.

Clause 10 of the Bill proposes an overhaul of the present section 209 of the Act, which enables any shareholder to complain to the Court that the affairs of the company are being conducted in a manner oppressive to some part of the members and that it is just and equitable to order that the complainant be bought out.

Clause 10 would allow a shareholder to complain of acts (as well as a course of conduct) that have been, are or are likely to be "discriminatory or unfairly prejudicial" to him (whether as a shareholder or as a director).

The court would have additional powers to forbid particular acts, to regulate future conduct or to direct the company to take particular legal proceedings (or authorise shareholders to take proceedings on the company's behalf).

Further, clause 13 of the Bill would amend section 217, to enable a minority shareholder to petition the court for the company to be wound up where directors have acted in their own interests rather than those of the company or in a manner unfair or unjust to any shareholder.

The potency of the winding-up threat is strengthened by clause 20, which would amend section 220 to do away with the rule that a company may not be wound up on a petition by the contributories if there would be no assets for distribution amongst such contributories.

Winding up:

The winding up of a company is more usually a matter of creditors' rather than shareholders' protection. The interests of creditors are enhanced significantly by clauses 11 to 36 of the Bill which contain several new provisions:

- A power to obtain unpaid share capital from persons who have transferred their shares within two years before the commencement of the winding up to persons who cannot meet a call on the shares;
- A power whereby the liquidator may examine persons on oath and demand production of documents in relation to the company;
- A power for the liquidator to recover the discrepancies involved in transactions during the two years before the winding up where the company has bought or sold property at an unreal value from or to a director, a controlling shareholder or a related company.
- A power to treat as void as against the liquidator a security given by a company to a director, controlling shareholder or related company if the Court thinks it just and equitable to do so;
- A power to order a related company to contribute to the debts of a company being wound up;
- An alternative procedure for dissolving a company which is solvent but has ceased to carry on business.

Also notable are clauses 31 and 32 which extend the personal liability for company debts of officers where the company's business has been carried on in a reckless manner and of directors who have acted negligently in respect of the company.

Creditors management:

The Bill also provides a new Part VIIA for the Companies Act: 36 sections dealing with "creditors management". It is designed to enable a middle course to be taken between the extremes of allowing an insolvent company to trade merrily on or liquidating it.

The proposed procedure would commence with the calling of a creditors' meeting and a resolution that, although the company is unable to pay current debts as they fall due, there would be a reasonable probability of payment if the company were placed under creditors' management.

A subsequent resolution would be required to specify the duration of such management (not exceeding two years) and a person (not connected with the company) who has agreed to act as the creditors' manager.

Receivers:

One further measure of creditors' protection is clause 37. It imposes a new duty on a receiver or manager selling company property to obtain the true market price as at the date of sale; the duty would be owed to the company.

At present, a receiver is primarily liable to the debenture holder who appoints him and is under no duty at all to the company or its shareholders. Clause 37 would mean an end to the practice of knocking off a struggling company's assets at "mate's rates" to the disadvantage of unsecured creditors and shareholders.

The Companies Amendment Bill is an undeniably useful measure and will curb rip-offs in the corporate context. But it is hardly controversial and still five years overdue.

How long before the more contentious issues in company law (corporate opportunity, insider trading, employee participation, increased disclosure) get an airing?